

# Annual Report 2010

cdongroup 



CDON.COM

nelly.com

GYM GROSSISTEN.COM

bodystore.com

BookPlus  
KIRJAMAAILMA

FITNESSSTUKKU.FI

LinusLotta.com

Lekmer.com

Heppo.com RUM21

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## A Year of Continued Strong Growth

### CEO's statement



2010 was an exciting year in the history of CDON Group. Our audacious investments in e-commerce continued through the broadening of our existing businesses, geographic expansion, acquisitions and the launch of new businesses. We were distributed from our former owners and introduced as an independent e-commerce group at Nasdaq OMX Stockholm. Further more, the positive trend for the group continued and we presented our best result ever where we strengthened both sales and profitability.

The dedication and hard work that our employee's have displayed during the year is admirable. Meanwhile, our customers have shown us increased confidence throughout the year. Thanks to all of you for a very good year.

#### **A new listed company that is constantly evolving**

The launch of CDON.COM 1999 laid the foundation for that which today is CDON Group. We have developed over the years and today CDON Group is the leading Nordic e-commerce player within Entertainment and Sports & Health, and one of the fastest growing companies within Fashion. CDON Group builds strong and well-known brands within internet based consumer retailing through great service, wide assortment, fast distribution, competitive pricing and a stimulating customer experience.

CDON Group is an innovative group in the retail sector. We are one of few pure internet-based e-commerce companies on the stock market and we have taken a leading position in a durably growing market segment. Growth within the Swedish retail sector was 3.3% in 2010, while internet-based retailing grew by 13.1%. We are convinced that the e-commerce market is still in its infancy and that the strong growth that the market has seen in recent years will continue as a growing number of customers experience the advantages of e-commerce.

#### **Record-high growth in revenues and profitability**

CDON Group displayed continued strong growth and profitability during 2010. With a sales growth of 27% we exceeded the 2 billion SEK mark for the first time in the history of our group. At the same time we delivered a higher operating profit for the full year, despite of our intense investment pace. Both our toy retailer Lekmer.com and our shoe retailer Heppo.com was launched pan- Nordic during the year. Lekmer.com was acquired in April, and Heppo.com was launched in August 2010. We also conducted a test launch of our fashion retailer Nelly.com in Germany and in the Netherlands.

All of our segments delivered increased sales and improved operating profit for the full year. The Entertainment segment defied the general market decline of media products, and displayed a double-digit growth as well as increased market shares. All product groups except for CDs grew, and the strongest growth came from toys, electronics and books. The Fashion segment continued its remarkable development and displayed a three-digit growth rate as an effect of an expanded

product assortment and a strong growth in all Nordic markets. The Sport & Health segment increased its market share in all markets and showed a healthy growth of 35% for the full year.

**Strong financial position provides flexibility**

Our group has a strong net cash post and a convertible bond of 250 million SEK subscribed by former parent MTG. The Board proposes that no dividends be paid to shareholders for 2010, but instead further strengthen the financial position. Our financial position and our stable cash flows gives us flexibility and an ability to act upon opportunities that strengthens our presence and position in e-commerce.

**Intense investment pace**

The E-commerce platform currently utilised by our internet retailing stores provides the group with economies of scale as we continue our expansion within both existing and new market segments. We will continue to work for growth in three areas: developing our existing businesses, expanding them geographically, and adding new businesses to our portfolio. The effect of our growth strategy is that we shift increasing proportions of our business to new and growing segments.

Acquisition is and has been an important part of our expansion strategy, as exemplified by the successful integrations of Nelly.com and Gymgrossisten.com into CDON Group, which accelerated both the growth and profitability. In 2010 we added the Lekmer.com and Heppo.com to our portfolio, and in January 2011 the brand furniture and interior decoration retailer RUM21.se. We will continue to invest in the development of these businesses with the ambition that they to will grow strong and in a few years contribute to groups profitability.

**Baseline for 2011**

Our strategy is to use our market leading position for continued improvement and development of our existing businesses, and to expand into new product segments. To further strengthen our position and offer a better customer experience, we will invest heavily in developing our existing businesses in each segment and in every market. We also have the financial resources to broaden our portfolio and our customer offering through further strategic acquisitions within internet retaining.

CDON Group is well poised to meet our goals, and our overall focus is on creating shareholder value through increased sales, improved profitability and continued customer satisfaction.

Finally, I welcome you all to our stores in 2011.

**Mikael Olander**  
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 for our ability to create a long-term sustainable business 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 the society*

CDON Group supports selected social initiatives to bring about positive change in the society where we act. We deal with climate matters and encourage environmental responsibility.

#### *We act responsibly towards our colleagues*

CDON Group guarantees an equal workplace, invests in the development of employees and ensures that our company is good and safe workplaces.

CDON Group is part of the community and we are committed, together with our employees, in our society. Among other things by working together with NGOs to create awareness of the issues we support.

Within the businesses of our Group we support local initiatives in matters of concern to our staff. Some examples from the previous year: At CDON.COM in Malmö staff dedicated themselves to the project Ett steg till, a project that aims to help children that by one reason or another needs support from adults outside their family. At Lekmer.com in Stockholm, they conducted auctions for the benefit of Save the Children and distributed toys to among others Queen Silvia Children's Hospital, Gothenburg City Mission and Ersta children's hospital.

**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 towards direct and indirect stakeholders, but also for future generations. CDON Group has a particular focus on sustainability from an economic, social and environmental perspective. We strive to relate with partners in a proper manner and enters into partnership with companies that manage their business in agreement with prevailing laws and ethical principles. Human rights, gender equality and environmental concerns shall be met and CDON Group also strives for our suppliers and partners to follow these values.

Within CDON Group, we follow the UN Global Compact's ten principles aimed at businesses and include human rights, labour rights, the environment and corruption. The principles are based on the UN Universal Declaration of Human Rights, the ILO's fundamental Conventions on Human Rights at Work, the Rio Declaration and the UN Convention Against Corruption.

We always gather information on, and comply with, relevant laws, regulations and international conventions. Our suppliers share our commitment. We provide supplier terms that clearly explains CDON Group's requirements and ethics, and our suppliers to act in unity with the UN Global Compact's ten principles.

We and the suppliers we choose to work with the guarantee of freedom of association and diversity in employment and we do not accept any forms of forced- or child labour, we act based on our environmental policy and we are constantly seeking new and better ways to reduce our environmental impact and we support free, fair and open competition under the laws applicable in each country we operate in.

Within CDON Group, we make sure to have sufficient information on our suppliers to ensure that they meet our values before we enter into commercial relationships. We strive to be honest and fair in our contacts with suppliers and subcontractors. To give or receive bribes or great benefits are not accepted, we will not participate in party politics or give donations to political parties or candidates. We provide services and products that meet our customers' expectations both in quality, service and production-wise. We also guarantee a safe and secure handling of personal data and information our customers provide on our websites – data security is a priority for us.

### **Sustainable environmental work**

The environment is everyone's responsibility, both persons and businesses. Our ability to take responsibility for a sustainable development is vital to strengthen our public trust. Within CDON Group we continuously look for ways to further reduce our environmental impact.

Our business requires storage units, packaging and transportation. Our customers, shareholders and society at large expect us to offer eco-efficient choices and that we otherwise conduct our business in a sustainable manner.

We have since the start developed our packaging range for each item to have an optimal packaging that protects products while causing the least material consumption. It has given us packaging with smaller size and lower weight. Most of our parcels are sent in cartons produced from recycled fibres.

Most of our items are sent with Posten Norden. It is a supplier that conducts an active environmental work. Our goods are sent as climate economic letters, which is the most environmentally friendly distribution. This means that airfreight is avoided and that Posten Norden climate offsets for the distribution.

### **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 appreciation for their efforts. 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 perform his job.

Within CDON Group, we value diversity and provide equal treatment, for us it is performance that determines the possibility of developing within our group. We are constantly striving to improve ourselves as an employer and we encourage participation, interest and dedication from our staff.

Our annual survey of employee performance showed that 90% of our employees enjoy working with their colleagues and that 88% of our employees wants to grow and find new challenges within the our group. Commitment among employees is high, 86% say they are prepared to "give that little extra" to contribute to our business success.

## Financial overview

### 2010–2007

| Group (SEK million)                         | 2010    | 2009   | 2008   | 2007   |
|---|---------|--------|--------|--------|
| <b>Operating revenue and income</b>         |         |        |        |        |
| Net sales                                   | 2,210   | 1,746  | 1,286  | 910    |
| Gross income                                | 420     | 348    | 192    | 132    |
| Operating income (EBIT)                     | 135     | 125    | 83     | 79     |
| Income after financial items                | 116     | 113    | 75     | 91     |
| Net income for the period                   | 90      | 80     | 49     | 104    |
| <b>Profitability and related ratios</b>     |         |        |        |        |
| Gross margin                                | 19.0%   | 20.0%  | 14.9%  | 14.5%  |
| Operating margin                            | 6.1%    | 7.2%   | 6.4%   | 8.7%   |
| Return on capital employed                  | 36.1%   | 37.5%  | 25.9%  | 38.2%  |
| Return on equity                            | 60.6%   | 49.6%  | 24.9%  | 33.2%  |
| <b>Capital structure and related ratios</b> |         |        |        |        |
| Net debt (+) / Net cash (–)                 | -224    | -15    | -42    | -245   |
| Equity/asset ratio                          | 34.2%   | 1.1%   | 25.1%  | 36.1%  |
| <b>Operational key ratios</b>               |         |        |        |        |
| Number of visits, thousands                 | 114,102 | 88,042 | 63,460 | 53,702 |
| Number of orders, thousands                 | 4,711   | 3,933  | 3,154  | 2,827  |
| Average shopping basket, SEK                | 442     | 421    | 409    | 372    |



## Board of Directors' Report

CDON Group AB (CDON) is a Group comprised of internet retailers. Its share is traded as CDON on the MidCap list of the NASDAQ OMX Stockholm Exchange. 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

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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 nine internet stores and is a prominent player in the Nordic internet retailing market. Its assortment includes a wide selection of products such as movies, games, music, books, toys, home electronics, clothes, shoes, furniture, interior design, and nutritional supplements. The product selection includes physical products as well as digital products for download and streaming. The customer database contains more than two million active customers. CDON Group divides its operations into three segments.

#### Entertainment

Operations in the Entertainment segment are conducted through the CDON.COM, BookPlus.fi, and Lekmer.com online stores.

**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 is available in local versions in the Nordic region; together these stores registered almost sixty million visits in 2010. CDON.COM has a scalable business model that 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, home electronics, and household products.

**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 market leader 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** launched in Sweden in 2006. Today it is a leading online store for toys and other products for children. Lekmer.com was acquired by the CDON Group in March 2010. The product range includes some 4,500 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 online stores Nelly.com, LinusLotta.com, and Heppo.com.

**Nelly.com** was founded in 2004. After its acquisition in 2007 by the CDON Group, the online store has undergone major structural improvements such as a complete redesign of its layout, new IT infrastructure, and improved warehouse logistics. Nelly.com has expanded rapidly with launches in Norway in June 2008, and in Denmark and Finland in October 2008. In October 2010, a German version of Nelly.com was introduced, which marked the first expansion outside the Nordic region. Nelly.com is also currently being tested on the Dutch market. 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 500 external brands in all price ranges. In 2008, Nelly.com launched its own brands, including "Nelly". The product range under the Company's own brands has subsequently expanded to currently include an extensive range of shoes and accessories, as well as clothing and underwear.

**Linuslotta.com** was already active in the Nordic market when the online store was acquired by the CDON Group in 2007. After its acquisition, Linuslotta.com was integrated into CDON's infrastructure. Its product selection includes clothes and shoes for children, as well as maternity clothing. The online store targets pregnant women and parents of children ages 0-12.

**Heppo.com** is an online retailer of shoes and shoe accessories. Its Swedish operations were launched in August 2010 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 100 different brands. The main target audience for the online store is men and women ages 25–35.

**RUM21.se** is the latest addition to the Group from 2011. RUM21.se was launched in 2006 in Borås, Sweden. Today it is a leading 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.

## Sports & Health

Operations in the Sports & Health segment are conducted through the online stores Gymgrossisten.com (Fitnessstukku.fi in Finland) and Bodystore.com.

**Gymgrossisten.com** was founded in 1996 and is today the leading online retailer of dietary supplements in the Nordics with just under five million visits in 2010. Even with respect to the total market, Gymgrossisten.com holds a leading position. The CDON Group acquired Gymgrossisten.com and its Finnish equivalent, Fitnessstukku.fi, in 2008. The Company established

the brand in Norway in October 2008 and in Denmark in February 2011. In addition to online sales, Gymgrossisten.com also retails its products through six franchises: five in Sweden and one in Norway. Gymgrossisten.com offers a wide variety of dietary supplements. The products are available in several different forms, such as bars, powders, and beverages. Their main usage areas are 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 one of Sweden's leading online stores 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. Since then, it has undergone substantial improvements including a new layout better adapted to its target audience. 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.

## Overview

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Sales and earnings increased significantly in 2010. The Entertainment segment was broadened by widening the home electronics segment and launching household products through CDON.COM as well as acquiring the Lekmer.com toy store, which expanded in the Nordics during the year. The Fashion segment has continued its highly expansive growth, mainly driven by the development of in-house brands, the widening of its product range, and continued geographic expansion. The segment broadened further during the year through the Nordic launch of shoe retailer Heppo.com, and the January 2011 acquisition of RUM21.se, a brand furniture and interior design retailer. The Sports & Health segment strengthened its position in all geographic markets, particularly in Norway and Finland. In February 2011, the segment expanded into the Danish market. Partnerships between Group subsidiaries regarding marketing and logistics in all markets have enabled additional growth.

The CDON Group was demerged from its former parent company Modern Times Group MTG AB ("MTG") and distributed by means of stock dividend to MTG shareholders. The CDON Group was listed on the Nasdaq OMX Stockholm exchange under the symbol "CDON" and commenced trading on 15 December 2010.

**Consolidated financial position**

| (SEK thousand)                   | 2010      | 2009      | Change (%) |
|----------------------------------|-----------|-----------|------------|
| Net sales                        | 2,210,034 | 1,746,162 | 26.6%      |
| Gross profit                     | 420,220   | 348,471   | 20.6%      |
| Gross margin, %                  | 19.0%     | 20.0%     |            |
| Operating profit                 | 134,628   | 125,139   | 7.6%       |
| Operating margin, %              | 6.1%      | 7.2%      |            |
| Net financial items              | -18,799   | -11,808   | -          |
| Profit before tax                | 115,829   | 113,331   | 2.2%       |
| Profit after tax                 | 90,234    | 80,496    | 12.10%     |
| Basic earnings per share, SEK*   | 5.00      | 159.09    | -          |
| Diluted earnings per share, SEK* | 4.90      | 159.09    | -          |
| Total assets                     | 1,014,197 | 741,158   | 36.8%      |

\* Earnings per share for 2009 have been recalculated taking into account a 250:1 share split in September 2010. The number of shares for 2009 is 500,000. Earnings per share for 2010 have, in addition to taking into account the 250:1 share split, been recalculated to reflect two new share issues, in which the number of shares increased from 500,000 to 66,045,122 and 66,342,124 in September and October respectively. For 2010, the weighted average number of shares before dilution amounted to 18,153,748, and the weighted average number of shares after dilution totalled 18,694,484.

**Sales**

Consolidated net sales increased to SEK 2,210.0 million from SEK 1,746.2 million, a 27% year-on-year increase. The rise was due to continued growth and increased market share for all segments in the Group. The Group's e-commerce shops attracted 114.1 million visitors (88.0) and generated 4.7 million orders (3.9).

**Operating expenses**

Consolidated expenses for goods sold rose 28% to SEK 1,789.8 million (1,397.7). The lower gross margin of 19.0% (20.0) reflected the impact of the appreciation of the Swedish krona, the Group's reporting currency, against its other operating currencies, as well as the ongoing transition from CD sales with high margins to growth categories such as home electronics, books, and video games.

Sales and administration expenses increased 28% to SEK 287.4 million (224.1) due to increased sales volumes, the consolidation of Lekmer.com in Q2, and the launch of Heppo.com in Q3. The Group also incurred corporate expenses of SEK 17.8 million (0.1) for the full year, of which SEK 12.6 million is attributable to expenses related to the Group's independent listing on the exchange. The Group expects these corporate expenses for full-year 2011 to remain at similar levels as for the full-year 2010.

The Group recognised an 8% increase in operating profit, to SEK 134.6 million from SEK 125.1 million, with an operating margin of 6.1% (7.2).

### Net financial items

Consolidated net financial items amounted to SEK -18.8 million (negative 11.8) for the full year, which was mainly due to the increased debt/equity ratio in most of 2010, as well as exchange differences. The Group also began to incur interest expenses attributable to the five-year convertible bonds issued on 2 December 2010, which bear a cash interest rate of 2.85% per annum. The effective interest that is charged against net financial income amounts to 6.99%.

### Tax

Group profit before tax rose 2% from SEK 113.3 million to SEK 115.8 million for the full year.

The Group recognised tax expense of SEK -25.6 million (-32.8), including the utilisation of previously unrecognised deficit deductions.

### Net profit and earnings per share

Consolidated profit before tax increased 12% from SEK 80.5 million to SEK 90.2 million. The total number of outstanding shares increased from 500,000 at the start of 2010 (taking a 250:1 split in September 2010 in consideration) to 66,342,124 at year-end. The Group therefore reported earnings per share of SEK 5.00 (159.09) for the full year.

## Consolidated financial position

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Group total assets grew by 37% year-on-year to SEK 1,014.2 million (741.2) at 31 December 2010, which reflected the on-going expansion of the Fashion and the Entertainment segments. Inventory levels increased year-on-year to SEK 251.3 million (153.0). The convertible bonds issued by the CDON Group in December 2010 are therefore recognised partly as liability and partly as equity in the consolidated and parent company statements of financial position.

Capital employed increased SEK 287.2 million compared with 2009 to SEK 553.7 million, which was primarily due to the issue of the convertible bonds and increased inventory levels. Increased inventory levels are due to increased sales in Fashion and Sports & Health, which are warehouse-intensive segments. The Group's twelve month return on capital employed therefore declined year-on-year to 36.1% (37.5). However, the twelve-month return on capital employed excluding cash and cash equivalents increased year-on-year to 83.5% (68.3).

Cash flow from operating activities before change in working capital declined to SEK 126.2 million (127.7) for the full year. The decline reflected higher financial items in conjunction with a higher debt/equity ratio for the full year. The Group reported a SEK -32.9 million (91.2) change in working capital for the year. The difference in the full year is primarily due to a non-recurring effect in 2009 from a permanent decrease in accounts receivable, following the Group's outsourced invoice management for CDON.COM from June 2009.

Consolidated cash flow to investing activities stood at SEK -9.8 million (-5.6) for the full year, which primarily reflected the SEK -4.0 million cash flow impact from the acquisition of

Lekmer.com in March, as well as a cash flow effect of SEK 6.0 million related to the sale of a warehouse facility in September 2009.

Consolidated cash flow to/from financing activities totalled SEK 353.8 million (-254.9) for the full year, which primarily reflected the acquisition in October of an additional 5.54% stake in NLY Scandinavia AB (Nelly.com) from minority shareholders in October with a cash flow effect of SEK -21.0 million, the fluctuations in utilised credit facilities provided by former parent company Modern Times Group MTG AB before the demerger, and the funds from the SEK 250.0 million convertible bond, which was issued in December and which MTG subscribed for.

Total interest-bearing liabilities for the Group amounted to SEK 207.2 million (258.4) at year-end, which mainly reflected the issue of convertible bonds for a nominal value of SEK 250.0 million in December, as well as an offset issue in which MTG subscribed for 65,545,122 newly issued shares at a share price of SEK 3,646 per share through an offset claim against the CDON Group of SEK 239.0 million.

Group cash and cash equivalents increased as such by SEK 428.3 million (-39.4) for the full year to SEK 431.3 million at 31 December 2010, compared to SEK 3.0 million at the end of 2009.

The Group reported a net cash position of SEK 224.1 million at the end of the year (defined as cash and cash equivalents plus MTG cash pool accounts, less interest-bearing liabilities), compared to a net cash position of SEK 14.7 million at the end of 2009.

## Acquisitions and divestments

CDON Group acquired an additional 5.54% of shareholdings in NLY Scandinavia AB (the Nelly.com fashion store) on 15 October 2010 for a cash purchase price of SEK 21.0 million. CDON Group AB now owns 95.54% of shares in the company.

On 31 March, the CDON Group acquired 90.1% of shares in Lekmer AB for a purchase price of SEK 7.5 million. Lekmer.com's earnings have been fully consolidated within the Entertainment segment as of 1 April 2010. Lekmer.com has also subsequently been rolled out on a pan-Nordic basis.

## Segments

### Entertainment

| (SEK thousand)                | 2010      | 2009      | Change (%) |
|-------------------------------|-----------|-----------|------------|
| Net sales                     | 1,492,154 | 1,336,693 | 11.6%      |
| Operating profit              | 99,734    | 92,719    | 7.6%       |
| Operating margin, %           | 6.7%      | 6.9%      |            |
| No. of visits (thousand)      | 68,564    | 62,362    | 9.9%       |
| No. of orders (thousand)      | 3,685     | 3,325     | 10.8%      |
| Average shopping basket (SEK) | 375       | 375       | 0.0%       |

The Entertainment segment comprises the CDON.COM, BookPlus.fi, and Lekmer.com online stores. Segment sales were up 12% for the full year, despite the significant ongoing industry-wide decline in CD sales and the decline in media products in general. The fourth quarter is the seasonally strongest sales period of the year, especially for Lekmer.com, which has a majority of its total annual sales in Q4. The Entertainment segment accounted for 67.5% (76.6) of total Group sales for the full year. The fastest growing categories in the Entertainment segment were toys, consumer electronic products, and books. CDON.COM consolidated its position as a market-leading online retailer of mobile phones and accessories, and further broadened its assortment by introducing a range of household products. BookPlus.fi continued to perform strongly and further increased its market share in the Finnish e-book sector. Lekmer.com, which was consolidated from Q2 2010, also performed according to plan and generated healthy sales growth.

Segment operating profits were up 8% year-on-year, with a lower operating margin of 6.7% due to the ongoing shift in the product category mix, as well as investments in the expansion of both existing and newly acquired businesses, and the year-on-year appreciation of the Group's Swedish krona reporting currency against its other operating currencies.

### Fashion

| (SEK thousand)                | 2010    | 2009    | Change (%) |
|-------------------------------|---------|---------|------------|
| Net sales                     | 433,167 | 202,625 | 113.8%     |
| Operating profit              | 16,078  | 7,011   | 129.3%     |
| Operating margin, %           | 3.7%    | 3.5%    |            |
| No. of visits (thousand)      | 39,312  | 20,846  | 88.6%      |
| No. of orders (thousand)      | 635     | 328     | 93.6%      |
| Average shopping basket (SEK) | 655     | 611     | 7.2%       |

The Fashion segment comprises the Nelly.com, LinusLotta.com, and Heppo.com online stores. Segment sales more than doubled year-on-year and accounted for 19.6% (11.6) of Group sales for the full year. The sales growth reflected the exponential growth of Nelly.com following its expansion across the Nordic region and enlargement of its proprietary brand and third-party assortment, as well as the contribution of newly launched Heppo.com, which has started well. The second and fourth quarters are typically the seasonally strongest periods of the year for the Fashion segment and the ready-to-wear clothing industry in general.

Segment operating profits more than doubled for the full year with an increased operating margin of 3.7%.

**Sports & Health**

| (SEK thousand)                | 2010    | 2009    | Change (%) |
|-------------------------------|---------|---------|------------|
| Net sales                     | 284,658 | 210,709 | 35.1%      |
| Operating profit              | 35,358  | 26,200  | 35.0%      |
| Operating margin, %           | 12.4%   | 12.4%   |            |
| No. of visits (thousand)      | 6,226   | 4,833   | 28.8%      |
| No. of orders (thousand)      | 391     | 280     | 39.6%      |
| Average shopping basket (SEK) | 727     | 750     | -3.1%      |

The Sports & Health segment comprises the Gymgrossisten.com, Fintesstukku.fi, and Bodystore.com online stores. Segment sales were up 35% for the full year and accounted for 12.9% (12.1) of sales for the full year. The sales growth primarily reflected market share gains for Gymgrossisten.com in Norway and for Fintesstukku.fi in Finland. The first quarter is the seasonally strongest period of the year for the Sports & Health segment, due to the higher interest in exercise and physical well-being in the early part of the year, with the remaining quarters typically of approximately equal size.

Segment operating profits grew by 35% for the full year, with an operating margin of 12.4% despite the Group's investments to increase its market shares in Finland and Norway.

**Significant events after the end of the period**

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. The company, less cash and liabilities, was acquired for a purchase price of 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. Its sales in 2010 amounted to SEK 11 million and it had four employees at year-end.

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 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 2010.

Nelly.com was test launched in Germany in May 2010 and marked the first expansion of CDON Group outside the Nordic region. The online store's initial marketing campaign comprised affiliate programmes, online social media, as well as TV advertising campaigns. The test launch showed a



healthy demand for Nelly.com products in the German marketplace, so in March 2011 the decision was made to complete the launch by permanently establishing Nelly.com in Germany. Nelly.com's German launch is expected to operate at a loss in 2011 and 2012.

## Outlook

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The Nordic e-commerce market is in an early phase of development and accounts for approximately 3.8 per cent of the total Nordic retail sector, which was estimated at approximately SEK 1,600 billion in 2009<sup>1</sup>.

Compared to more developed e-commerce markets such as the US, e-commerce penetration<sup>2</sup> in the Nordic countries is still at low levels. According to Forrester Research, the penetration of e-commerce in the US reached 6.0 per cent in 2009.

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.<sup>3</sup>

Sweden and Denmark are considered to be the largest individual e-commerce markets in the Nordics, each with annual sales of SEK 18 billion in 2009. Euromonitor estimates that Nordic e-commerce will continue to report double-digit growth (a compound annual growth rate, CAGR, of 11 per cent) over the next four years. 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.

The economic and business climate in the markets in which the CDON Group is active stabilised near the end of 2009 after the 2008 and 2009 financial crisis, and continued to grow stronger in 2010 and thus far in 2011.

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 established, scalable, and efficient internet-retailing platform and by continuing to develop its portfolio of market-leading online retailers, the Group will achieve its overall objective: to create sustainable, long-term value for company shareholders.

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.

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<sup>1</sup>HUI and Forrester Research

<sup>2</sup>E-commerce penetration refers to the proportion of total retail market sales that occur over the internet.

<sup>3</sup>HUI and CDON Group

- The Group will generate margins that are at least in line with the average for competitors in each of its operating market segments, excluding the impact of new start-ups and acquisitions, historically lower marketing costs due to its participation in MTG, and non-recurring effects due to the listing of the company's share on the Nasdaq OMX Stockholm exchange in 2010.

The CDON Group's objectives can be summarised as organic growth at least in line with the market (CAGR 11%) over a five-year period (2009-2014), and an underlying operating margin at least in line with the industry average that increases gradually over the period. It expects to achieve this through a stable or slightly increasing 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
- Continuous profitability gains
- Synergies between the online stores

### Growth

The online retail sector is in a nascent stage in the markets where the CDON Group is active. There is underlying market growth as e-commerce becomes a more common and established sales channel. The consumer shift from traditional retailers to the internet will benefit the companies that are well positioned with leading 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 for achieving 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, broader product range from several stores within the Group.
- **Geographic expansion:** CDON Group is planning for a continued pan-Nordic expansion of the Group's online retailers, as 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 successfully 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 a growth driver in the future as well, both to consolidate existing markets and to enter new segments and geographic markets.

- **Own company launches:** The launch of the new internet store Heppo.com in Q3 2010 in the Fashion segment is an example 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 improvement

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 and new markets.
- **Transition to products with higher profitability:** In recent years the percentage of sales that originates from the Sports & Health and Fashion segments has grown sharply. The CDON Group intends to continue pursuing this trend by increasing the percentage of sales of higher margin products, such as clothing and food supplements.
- **Transition to proprietary brands:** Developing and launching proprietary 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 for sale.
- **Marketing and sales:** Economies of scale when purchasing advertising space, optimisation of SEO/SEM investments, 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 business areas combined with financial capacity to use Group cash flows to establish new subsidiaries, geographic expansion of existing web sites, and add-on acquisitions.

## Risks and uncertainties

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### 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. Other risks that are unknown to CDON Group or that CDON Group currently perceives as insignificant may in the future have a significant impact on the CDON Group's business, financial position, or earnings.

### Industry and market risks

- Market development for e-commerce
- Seasonal variations
- 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 assets

### Financial risks

- Currency
- Financing and interest rates

### Legal risks

- Legislative, regulatory, and compliance
- Intellectual property rights
- Taxes

## **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 2009 the e-commerce market in Sweden constituted 3.7 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, the 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. Seasonal variations are relatively small in the Sports & Health segment.

### **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 for CDON Group 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. However, despite this it cannot be ruled out that systems could suffer from operational disturbances or interruptions. Such disturbances or longer interruptions to CDON Group's IT and control systems would lead to significant operational disturbances, and lower confidence in the CDON Group, with adverse effect on its competitive strength and market position as a result.

### **Distribution**

CDON Group depends on a number of warehouses that are associated with the Company's internet 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 adverse effect on the Company's operations. The 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 the CDON Group.

#### **Structural measures and acquisitions**

The CDON Group has made a number of acquisitions since 2007. Its long-term strategy is to continue to grow through further acquisitions in new and existing markets. The CDON Group has a high market share in certain markets, in particular in the product markets within the Entertainment segment, which may lead to a standard regulatory review of additional acquisitions. Growth via acquisitions also 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. There is no guarantee that the CDON Group will be able to successfully carry out desired acquisitions or integrate acquired operations, or that after integration these operations will perform as expected.

#### **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. The Company 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 2010 were valued at SEK 255 million; these comprised goodwill of SEK 189 million, brands of SEK 54 million, development expenses of SEK 7 million, and other intangible assets of SEK 5 million. Although the CDON Group has made the assessment that no impairment currently exists, there are no assurances that the Company will not have to recognise an impairment loss in the future.

#### **Financial risks**

##### **Currency**

The CDON Group's reporting currency is the Swedish krona. Since a significant portion of the CDON Group's sales, some 50 per cent for full-year 2010, are made 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 loan. For more information on the convertible loan, see Note 27. 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 limits the company's interest rate risk. If the CDON Group's development deviates from the forecasted development, it cannot be ruled out that a situation could arise in the future in which CDON Group has difficulties paying interest or must obtain new capital, for example through a new share issue. Potential future acquisitions may also increase the need for new capital. It cannot be guaranteed that additional capital can be obtained on favourable terms for the CDON Group.

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

### **Legal risks**

#### **Legislation, regulation, and compliance**

CDON Group is affected by legislation and regulations relating to some of the goods that it sells. For example, products within the Sports & Health segment are covered by 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. Violation of legislation or regulations, such as food and drink legislation, could lead to injunctions against the CDON Group. Moreover, the cost of regulatory compliance can be substantial.

#### **Intellectual property rights**

The CDON Group works actively to protect its brands, name, and domain names in the jurisdictions where the CDON Group operates. However, there is no assurance that the measures the CDON Group has taken are sufficient. In CDON Group's opinion, the CDON Group does not infringe on any third-party intellectual property rights. However, there are no guarantees that in future situations, such as product launches or in conjunction with expansion into new geographic markets, the CDON Group will not infringe or be accused of infringing on third-party intellectual property rights.

#### **Taxes**

The CDON Group conducts business in several different countries. There are no assurances that the CDON Group's interpretation and application of applicable laws, regulations, case law, and the tax authorities' administrative practices have been or will continue to be correct, or that such laws, regulations, case law, or practices will not be amended, possibly retroactively. CDON Group may be affected by changes in different countries' tax laws and may have to pay additional taxes, interest, or penalties in connection with future tax audits or may be required to write down deferred tax assets.

## Environment

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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 Posten Norden, a supplier with an active environmental programme. Products packaged in envelopes are sent as eco-friendly product letters, the most environmentally compatible distribution method, in which air shipping is avoided and Posten offsets the carbon use for the distribution.

## Employees

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CDON Group recognises that its employees are crucial to the Company's operation. 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 333 full-time employees at the end of 2010, compared with 221 at the beginning of 2010. 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 adopt the following guidelines for remuneration to executives:

#### Remuneration guidelines

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



create a well balanced remuneration reflecting individual performance and responsibility, both short-term and long-term, as well as CDON Group's overall performance.

#### **Fixed salary**

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

#### **Variable 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**

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 allowance could be granted for a defined period.

#### **Pension**

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

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

The maximum notice period in any Executive's contract is twelve months 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 of Directors may deviate from the above guidelines, for example additional variable remuneration in the case of 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**

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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 uncertainties as the Group, since parent company operations are dependent on the Group's.

The CDON Group parent company reported sales of SEK 0.1 million (0.0) for the full year. Administrative expenses amounted to SEK 17.8 million (0.1) for the full year and included a non-recurring expense of SEK 12.6 million related to the listing of the CDON Group on Nasdaq OMX Stockholm. The remaining administrative expense mainly relates to becoming and operating a publicly listed company and is of a recurring nature, consisting of expenses for central functions, board fees, auditing services, etc.

Other net financial items amounted to SEK -8.3 million (-19.9) for the full year. Loss before tax totalled SEK -26.1 million (-20.0) for the full year.

The parent company reported cash and cash equivalents of SEK 407.4 million (0.0) at year end, which comprised the Group's cash pool and SEK 250.0 million attributable to convertible bonds issued during Q4 2010.

The parent company made investments of SEK 31.8 (63.7) million in non-current assets, of which SEK 21 million relates to the acquisition of an additional 5.54% of NLY Scandinavia AB (Nelly.com), and SEK 7.2 million relates to the acquisition of 90.1% of shares in Lekmer AB (Lekmer.com). The CDON Group now owns 95.54% of NLY Scandinavia. In April 2010, Gymgrossisten Nordic AB merged with its parent company, with a merger effect of SEK -56.8 million.

### Proposed allocation of profits

These amounts are at the disposal of the AGM as of 31 December 2010 (SEK):

|                       |                       |
|-----------------------|-----------------------|
| Share premium reserve | 139,870,129.00        |
| Retained earnings     | 95,811,649.30         |
| Loss for the year     | -19,398,503.03        |
| <b>Total</b>          | <b>216,283,275.27</b> |

The Board of Directors propose the retained profits and the share premium reserve and the profit for the year, a total of SEK 216.283.275,27 to be carried forward, whereof SEK 139,870,129 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 October 2010 extra general meeting of MTG resolved to distribute CDON Group shares to MTG shareholders. The CDON share was then listed on the Nasdaq OMX Stockholm exchange on 15 December 2010. The share is traded on the NASDAQ OMX Stockholm MidCap list under the

CDON ticker symbol. CDON's market capitalisation, as at the close of trading on the Nasdaq OMX Stockholm exchange on the last business day of 2010, was SEK 2.1 billion.

#### Share holders 31 December 2010

| Name   | No. of shares     | Equity and shares, % |
|--|-------------------|----------------------|
| Investment AB Kinnevik                       | 13,503,856        | 20.4                 |
| Capital Group Funds                          | 4,412,433         | 6.7                  |
| Lannebo Funds                                | 2,226,379         | 3.4                  |
| SEB Funds                                    | 2,001,020         | 3.0                  |
| Fidelity Funds                               | 1,701,815         | 2.6                  |
| Swedbank Robur Funds                         | 1,625,237         | 2.4                  |
| JP Chase Na                                  | 1,382,669         | 2.1                  |
| Goldman Sachs & Co W9                        | 1,334,424         | 2.0                  |
| AMF Insurance & Funds                        | 1,304,739         | 2.0                  |
| Nordea Funds                                 | 1,274,088         | 1.9                  |
| Total for the 10 largest owners –by holdings | 30,766,660        | 46.4                 |
| Other shareholders                           | 35,575,464        | 53.6                 |
| <b>Total</b>                                 | <b>66,342,124</b> | <b>100.0</b>         |

#### Share capital

At 31 December 2010, outstanding shares totalled 66,342,124. The Group's share capital amounted to SEK 132.7 million at year-end. For changes in the share capital between 2009 and 2010, please see the Consolidated Statement of Changes in Equity.

#### Dividend

The parent company did not pay dividend in 2010.

#### Share price trend

The share price at the end of the first trading day was SEK 35.5. At the last trading day of 2010, the share price was SEK 31.1.

## Corporate governance

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

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

The CDON Group is a Swedish public limited liability company. The Company is listed on the Nasdaq OMX Stockholm exchange, so 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 most aspects of the Code, and only deviates from its recommendations as regards remuneration committee membership, which is explained under the Remuneration Committee section.

### Corporate governance

**Shares and shareholders** The number of shareholders according to the share register held by Euroclear Sweden AB was approximately 21,000 at the end of 2010. Shares held by its ten largest



shareholders correspond to some 46 per cent of share capital and votes. Swedish institutions and mutual funds own approximately 42 per cent of the share capital, international investors own approximately 41 per cent, and Swedish private investors own approximately 18 per cent.

Share capital is comprised of one class of share. For more information regarding company shares, see the Share section. Information regularly provided to shareholders includes interim and full-year financial reports, financial statements, and press releases on significant events occurring during the year. All reports, press releases, and other information can be found on the CDON Group's website at [www.cdongroup.se](http://www.cdongroup.se).

### **Annual General Meeting**

The Annual General Meeting (AGM) is the highest decision-making body in a limited liability company and it is there that all shareholders can exercise their right to decide on issues affecting the Company and its operations.

The authority and work of the AGM are primarily based on the Companies Act and the Code, as well as on the Articles of Association adopted by the AGM. The AGM is 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 2010 will be held on 16 May 2011, in Stockholm, Sweden.

## **Nomination procedure**

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### **The Nomination Committee**

The Nomination Committee's tasks include:

- Evaluating the Board's work and composition
- Submitting proposals to the AGM regarding the election of Board members and the CEO
- Preparing proposals regarding the election of auditors in cooperation with the Audit Committee (when appropriate)
- Preparing proposals regarding the fees to be paid to Board members and to the Company's auditors
- Preparing proposals for the chairman of the AGM
- Preparing proposals to the AGM regarding the Nomination Committee's composition and work during the following year

Following a resolution of the Extraordinary General Meeting on 24 September 2010, a Nomination Committee was established with Cristina Stenbeck as convenor. The Nomination Committee is

comprised of Cristina Stenbeck on behalf of Investment AB Kinnevik, Johan Ståhl on behalf of Lannebo Funds, and Hans Ek on behalf of SEB Funds. Cristina Stenbeck was appointed chairperson of the nomination committee. The Nomination Committee together represents some 21 per cent of the votes in CDON Group AB. The members of the Nomination Committee do not receive any remuneration for their work.

The Nomination Committee will submit a proposal for the composition of the Board and Chairman of the Board to be presented to the 2011 AGM for approval. Shareholders wishing to propose candidates for election to the CDON Group AB Board should submit their proposals in writing to CDON Group AB, Nomination Committee, P.O. Box 385, SE-201 23 Malmö, Sweden.

#### **The Board of Directors as of 31 December 2010**

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

#### **Responsibilities and duties of the Board**

The Board is charged with providing effective support for and control of the activities of executive management. The Board has adopted working procedures for its internal activities that include rules pertaining to the number of board meetings to be held, the matters to be handled at such regular board meetings, and the duties of the chairman. The work of the Board is also governed by rules and regulations, including the Companies Act, Articles of Association, and the Code.

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 have to be approved by the Board. The Board must also approve major transactions, including acquisitions and closures or divestments of businesses. The Board has also issued written instructions specifying when and how information that is required for the Board to evaluate the Group's and its subsidiaries' financial positions should be reported.

| Name                  | Position | Born | Nationality | Elected | Independent in relation to major shareholders | Independent in relation to the company and 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   |                        |                 |
| Anders Nilsson        | Member   | 1967 | Swedish     | 2007    | No  | No  |                        | 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 chairman, 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 (the former owner of CDON), which is a significant supplier of marketing services to CDON and the holder of a convertible in CDON, as well as a company in which Investment AB Kinnevik holds more than 10 per cent of shares. As CEO for Investment AB Kinnevik, Mia represents shareholders who own more than 10 per cent of shares in CDON. The Company therefore deviates from the Code in this respect. 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, Anders Nilsson, 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 2011 AGM is in total SEK 3,100,000, 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, as of 2011, be proposed by the Nomination Committee, comprising 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 2010

During 2010, the Board regularly reviewed the financial position of CDON Group AB and the Group's financial position. The Board also regularly dealt with matters involving acquisitions, the establishment of new operations, and investment matters. The Board also evaluated the Group's strategy and future development plans.

The Board held five regular meetings in 2010.

### Presence at board and committee meetings

| Board                       | Board meetings | Audit Committee | Remuneration Committee |
|-----------------------------|----------------|-----------------|------------------------|
| <b>No. meetings in 2010</b> | <b>5</b>       | <b>1</b>        | <b>0</b>               |
| Hans-Holger Albrecht        | 5              |                 |                        |
| Mia Brunell-Livfors         | 5              |                 |                        |
| Henrik Persson              | 5              |                 |                        |
| Anders Nilsson              | 5              | 1               |                        |
| Lars Nilsson                | 4              | 1               |                        |
| Lars-Johan Jarnheimer       | 5              |                 |                        |
| Florian Seubert             | 4              | 1               |                        |
| Mengmeng Du                 | 4              |                 |                        |
| Mathias Hermansson          | 1              |                 |                        |

Mathias Hermansson was a board member until 8 September 2010.



## External auditors

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The Company's auditor was elected by the 2009 AGM for a period of three years. KPMG was elected as the CDON Group's 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 and 2010. These services comprised consultation on bookkeeping 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

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The CDON Group's executive management comprises the CEO, Chief Financial Officer (CFO), and other key executives. Biographical information on the Group's executive management is in the "Executive Management" section in this annual report.

### The CEO

The 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 executive remuneration were approved at the Extraordinary General Meeting on 24 September 2010 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. Remuneration is based on conditions that are market competitive and at the same time aligned with shareholders' interests. Remuneration to executives consist of a fixed and variable salary, possible participation in long-term incentive programmes and pension schemes. These components 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 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 50 per cent 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.

**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 these guidelines, for example, additional variable remuneration in the case of exceptional performance. In such a case the Board must explain the reason for the deviation at the following AGM.

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

## Internal control of financial reporting

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The processes for internal control, risk assessment, control activities, and monitoring regarding financial reporting are designed to ensure reliable overall and external financial reporting in accordance with International Financial Reporting Standards, 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 adopted by the Group. The responsibility for maintaining an effective control environment and internal control over financial reporting is delegated to the CEO. Other executive managers at various levels 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 Executive Management heading.

### 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. In 2005, MTG established an annual procedure that is followed by the CDON Group for senior

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

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### 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. Hans-Holger is co-chairman of CTC Media, Inc., which is Russia's biggest independent TV broadcaster and in which MTG is the largest shareholder since 2003, 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 Chairman 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.

Chairman 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. She has been Project Leader at Alumni, an executive search and leadership services consultancy since 2010. 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 Stardoll. Before joining the company 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 a member of the Board of Directors 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 Non Governmental Organisation 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, SARA Hotels, SAAB Opel Sverige AB, ZTV and Comviq. 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 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



### Anders Nilsson

Non-Executive Director  
Swedish, born 1967

Anders has been a member of the Board of CDON Group since 2007. He has served as Chief Operating Officer of MTG and Chief Executive Officer of MTG's Online business area since January 2008. Anders has also been Head of MTG's Bulgarian free-TV operations since October 2008, Head of the Group's Baltic free-TV operations since February 2009, and Head of the Group's free-TV operations in Slovenia since March 2010. Anders has also held senior management positions within MTG Radio and MTG's former Publishing business, was Chief Operating Officer of MTG between 2000 and 2003 and was Head of MTG Sweden between 2003 and 2007. He serves as Chairman of the Board of Directors in the search engine optimisation and search engine marketing company Relevant Traffic Europe AB. Anders joined MTG in 1992. Anders studied Law at Lund University.

Member of the Audit Committee.

Not independent of the Company and management and not independent of major shareholders.

Direct or related person ownership in CDON Group: 3.300 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 of Tele2 since 2007 and is, in addition 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 Degree in Economics 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: 7.000 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 was previously Kinnevik's Director of Corporate Communications between 2004 and 2007. Henrik has been a member of the Board of Directors of Black Earth Farming Ltd since 2006, of Kontakt East Holding AB since 2006, of Mellersta Sveriges Lantbruks AB since 2007 and of Relevant Traffic Europe AB since 2006. Henrik has studied Economics at Lund University.

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 zooplus 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

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### Mikael Olander

President & Chief Executive Officer

Born 1963

Mikael Olander was appointed CEO of CDON.COM in 2000. CDON was then a year old, and still purely a music record retailer via the internet. Under Mikael's management, CDON has gradually expanded and developed to become the leading Nordic online entertainment retailer. Mikael has been the CEO of CDON Group (previously MTG Internet Retailing) from the time it was created in 2007, following the acquisition of new companies by the Group. Before joining MTG, Mikael was a business area manager for Egmont Kärnan between 1995 and 1999. Prior to that, he has been on the Swedish National Athletics decathlon team, won two Swedish Championships as well as the American NCAA (National Collegiate Athletic Association) Outdoor Track and Field Championships, and participated in the European Championships, World Championships and the Olympic Games. Mikael has a Bachelor of Science degree in Finance from Louisiana State University, and an MBA from the University of California, Los Angeles.

Shareholding in CDON Group: 26.748 shares



### Martin Edblad

Chief Financial Officer

Born 1977

Martin Edblad joined Modern Times Group as a management trainee in 2004 and has since then held a number of finance related positions within MTG's Online business area, in particular within the internet retailing business. Martin became the controller for internet retailing in 2007, and the controller for MTG's whole Online business area in 2008. He 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: 225 shares

**Elisabeth Andersson**

Head of Administration

Born 1971

Elisabeth Andersson joined as COO of newly acquired LinusLotta.com in 2008. Starting 2009, she became Head of Logistics and Customer Services at CDON.COM and as of 2010 she is also the Head of Administration of CDON Group, which includes Human Resources. Elisabeth joined the company with more than ten years of experience in logistics, both from the Electrolux Group and Tradimus (currently 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: 0 shares

**Fredrik Bengtsson**

Head of Communications

Born 1974

Fredrik Bengtsson joined CDON.COM as Marketing Director of CDON.COM in 2004. In addition, he has also been the Head of Business Development from when MTG Internet Retailing, which is the current CDON Group, was created in 2007, and he has also been responsible for Group wide marketing activities. He is Head of Communications at CDON Group from 2010. Prior to joining CDON, Fredrik held the position as Director for 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 at Lund University and holds a Bachelor's degree in Informatics from University of Gothenburg, School of Business, Economics and Law.

Shareholding in CDON Group: 8.000 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 (current CDON Group) was created, he has held the position of Chief Technical Officer in the Group. Before joining CDON, Christofer worked with advertising systems for daily newspapers at the software company Mactive, where he started his career as a Systems Developer and finished as Director of Development. Christofer has studied Design of Information Systems at Lund University.

Shareholding in CDON Group: 2.000 shares



### Ola Jarvi

CEO Heppo, Lekmer and Rum21

Born 1971

Ola Jarvi joined CDON.COM in 2000 as Head of Marketing, and has since held a number of different positions within today's CDON Group, including Head of Sales, and COO of CDON.COM. Ola became the COO of MTG's whole internet retailing business in 2008. From 2010, Ola has been the CEO for the newest internet retailing stores, Lekmer and Heppo and from 2011 for Rum21. Prior to joining MTG, Ola worked with marketing at Micro Bildelar, which was then owned by the Ikano Group. He has a Masters degree in Business from Lund University.

Shareholding in CDON Group: 445 shares



### Peter Rosvall

CEO Nelly and Gymgrossisten

Born 1980

Peter Rosvall joined MTG as a management trainee in 2004 and has since then 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 the business). Following their acquisitions, starting 2007, Peter is responsible for new CDON Group companies Nelly.com/LinusLotta.com and Gymgrossisten.com/Bodystore.com. Peter has a Masters degree in Business from University of Gothenburg, School of Business, Economics and Law.

Shareholding in CDON Group: 5.340 shares

## Consolidated income statement

| (SEK thousands)                 | Note  | 2010           | 2009           |
|---------------------------------|---|----------------|----------------|
| Revenue                         | 4   | 2,210,034      | 1,746,162      |
| Cost of sales                   | 28  | -1,789,814     | -1,397,691     |
| <b>Gross profit</b>             |   | <b>420,220</b> | <b>348,471</b> |
| Sales & administrative expenses |   | -287,382       | -224,066       |
| Other operating income          | 6   | 1,790          | 2,207          |
| Other operating expenses        | 6   | -              | -1,473         |
| <b>Operating profit</b>         | 4, 5, 9, 10, 11, 12, 21, 23, 24, 26, 28, 30 | <b>134,628</b> | <b>125,139</b> |
| Finance income                  | 7   | 989            | 738            |
| Finance expense                 | 7, 27                                       | -19,788        | -12,546        |
| <b>Profit before tax</b>        |   | <b>115,829</b> | <b>113,331</b> |
| Tax                             | 8   | -25,595        | -32,835        |
| <b>Profit for the year</b>      |   | <b>90,234</b>  | <b>80,496</b>  |
| <b>Attributable to:</b>         |   |                |                |
| Parent company shareholders     |   | 90,835         | 79,554         |
| Non-controlling interest        |   | -601           | 942            |
| <b>Profit/loss for the year</b> |   | <b>90,234</b>  | <b>80,496</b>  |
| Basic earnings per share, SEK   | 15  | 5.00           | 159.09         |
| Diluted earnings per share, SEK | 15  | 4.90           | 159.09         |

## Consolidated statement of comprehensive income

| (SEK thousands)   | Note  | 2010          | 2009          |
|---|-------|---------------|---------------|
| Profit for the year   |       | 90,234        | 80,496        |
| <i>Other comprehensive income</i>                           |       |               |               |
| Translation differences for foreign operations for the year |       | -3,250        | -1,683        |
| <b>Other comprehensive income for the year</b>              | 8, 16 | <b>-3,250</b> | <b>-1,683</b> |
| <b>Comprehensive income for the year</b>                    |       | <b>86,984</b> | <b>78,813</b> |
| <b>Comprehensive income for the year attributable to:</b>   |       |               |               |
| Parent company shareholders                                 |       | 87,585        | 77,895        |
| Non-controlling interest                                    |       | -601          | 918           |
| <b>Comprehensive income for the year</b>                    |       | <b>86,984</b> | <b>78,813</b> |

## Consolidated statement of financial position

| (SEK thousands)  | Note | 31 december<br>2010 | 31 december<br>2009 |
|--|------|---------------------|---------------------|
| <b>ASSETS</b>  |      |                     |                     |
| <b>Non-current assets</b>                                    |      |                     |                     |
| <i>Intangible non-current assets</i>                         | 9    |                     |                     |
| Development expenses   |      | 7,007               | 23,823              |
| Domains  |      | 726                 | -                   |
| Customer relationships                                       |      | 4,111               | -                   |
| Trademarks   |      | 54,034              | 38,873              |
| Goodwill   |      | 188,966             | 189,865             |
| <b>Total intangible non-current assets</b>                   |      | <b>254,844</b>      | <b>252,561</b>      |
| <i>Property, plant, and equipment</i>                        | 10   |                     |                     |
| Equipment  |      | 3,660               | 1,953               |
| <b>Total property, plant, and equipment</b>                  |      | <b>3,660</b>        | <b>1,953</b>        |
| <b>Total non-current assets</b>                              |      | <b>258,504</b>      | <b>254,514</b>      |
| <b>Current assets</b>  |      |                     |                     |
| <i>Inventory</i>   | 30   |                     |                     |
| Finished goods and merchandise                               |      | 229,371             | 152,849             |
| Advances to suppliers  |      | 21,913              | 128                 |
| <b>Total inventory</b>                                       |      | <b>251,284</b>      | <b>152,977</b>      |
| <i>Current receivables</i>                                   |      |                     |                     |
| Accounts receivable  | 13   | 28,923              | 19,439              |
| Current tax receivables                                      |      | -                   | 583                 |
| Current interest-bearing receivables, MTG cash pool accounts |      | -                   | 270,027             |
| Other current receivables, non interest-bearing              |      | 35,824              | 30,308              |
| Prepaid expense and accrued income                           |      | 8,319               | 10,265              |
| <b>Total current receivables</b>                             |      | <b>73,066</b>       | <b>330,622</b>      |
| <i>Cash and cash equivalents</i>                             | 20   |                     |                     |
| Cash and bank  |      | 431,343             | 3,045               |
| <b>Total cash and cash equivalents</b>                       |      | <b>431,343</b>      | <b>3,045</b>        |
| <b>Total current assets</b>                                  |      | <b>755,693</b>      | <b>486,644</b>      |
| <b>Total assets</b>  |      | <b>1,014,197</b>    | <b>741,158</b>      |

| (SEK thousands)   | Note | 31 december<br>2010 | 31 december<br>2009 |
|---|------|---------------------|---------------------|
| <b>EQUITY AND LIABILITIES</b>                                   |      |                     |                     |
| <b>Equity attributable to parent company shareholders</b>       | 16   |                     |                     |
| Share capital   |      | 132,684             | 1,000               |
| Other capital contributions                                     |      | 140,670             | 800                 |
| Reserves  |      | -838                | 2,411               |
| Retained earnings including profit/loss for the year            |      | 73,149              | 2,527               |
| <b>Total equity attributable to parent company shareholders</b> |      | <b>345,665</b>      | <b>6,738</b>        |
| <b>Non-controlling interest</b>                                 |      |                     |                     |
| Non-controlling interest  |      | 879                 | 1,473               |
| <b>Total equity</b>   |      | <b>346,544</b>      | <b>8,211</b>        |
| <b>Non-current liabilities</b>                                  | 20   |                     |                     |
| <i>Interest-bearing</i>   |      |                     |                     |
| Convertible bonds   | 27   | 207,204             | -                   |
| <b>Total non-current interest-bearing liabilities</b>           |      | <b>207,204</b>      | <b>-</b>            |
| <i>Non-interest bearing</i>                                     |      |                     |                     |
| Deferred tax liability  | 8    | 26,748              | 15,051              |
| Other provisions  | 17   | 2,397               | 1,217               |
| <b>Total non-current non-interest bearing liabilities</b>       |      | <b>29,145</b>       | <b>16,268</b>       |
| <b>Total non-current liabilities</b>                            |      | <b>236,349</b>      | <b>16,268</b>       |
| <b>Current liabilities</b>                                      | 20   |                     |                     |
| <i>Interest-bearing</i>   |      |                     |                     |
| Interest-bearing liabilities, MTG cash pool accounts            |      | -                   | 258,380             |
| <b>Total current interest-bearing liabilities</b>               |      | <b>-</b>            | <b>258,380</b>      |
| <i>Non-interest bearing</i>                                     |      |                     |                     |
| Advances from customers   |      | 1,033               | 694                 |
| Accounts payable  |      | 240,133             | 202,127             |
| Current tax liabilities   |      | 26,420              | 2,285               |
| Other liabilities   |      | 38,819              | 158,086             |
| Accrued expenses and prepaid income                             |      | 124,899             | 95,107              |
| <b>Total current non-interest bearing liabilities</b>           |      | <b>431,304</b>      | <b>458,299</b>      |
| <b>Total current liabilities</b>                                |      | <b>431,304</b>      | <b>716,679</b>      |
| <b>Total liabilities</b>  |      | <b>667,653</b>      | <b>732,947</b>      |
| <b>Total equity and liabilities</b>                             |      | <b>1,014,197</b>    | <b>741,158</b>      |

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

## Consolidated statement of changes in equity

| (SEK thousands)   | Note 8, 16 | Equity attributable to parent company shareholders |                             |                     |  |                | Non-controlling interest | Total equity   |
|---|------------|--|-----------------------------|---------------------|--|----------------|--------------------------|----------------|
|   |            | Share capital                                      | Other capital contributions | Translation reserve | Retained earnings incl. year's profit/loss | Total          |                          |                |
| <b>Opening balance, 1 January 2009</b>                                    |            | <b>1,000</b>                                       | <b>800</b>                  | <b>4,070</b>        | <b>165,027</b>                             | <b>170,897</b> | <b>555</b>               | <b>171,452</b> |
| <b>Comprehensive income for the year</b>                                  |            |  |                             |                     |  |                |                          |                |
| Profit for the year   |            |  |                             |                     | 79,554                                     | 79,554         | 942                      | 80,496         |
| Other comprehensive income for the year                                   |            |  |                             | -1,659              |  | -1,659         | -24                      | -1,683         |
| <b>Comprehensive income for the year</b>                                  |            | <b>-</b>   | <b>-</b>                    | <b>-1,659</b>       | <b>79,554</b>                              | <b>77,895</b>  | <b>918</b>               | <b>78,813</b>  |
| Dividend to shareholders (SEK 75,000 per share)                           |            |  |                             |                     | -150,000                                   | -150,000       |                          | -150,000       |
| Group contribution, net after tax   |            |  |                             |                     | -93,157                                    | -93,157        |                          | -93,157        |
| Shareholder contribution  |            |  |                             |                     | 594  | 594            |                          | 594            |
| Effect of employee share option programmes                                |            |  |                             |                     | 509  | 509            |                          | 509            |
| <b>Closing balance, 31 December 2009</b>                                  |            | <b>1,000</b>                                       | <b>800</b>                  | <b>2,411</b>        | <b>2,527</b>                               | <b>6,738</b>   | <b>1,473</b>             | <b>8,211</b>   |
| <b>Opening balance, 1 January 2010</b>                                    |            | <b>1,000</b>                                       | <b>800</b>                  | <b>2,411</b>        | <b>2,527</b>                               | <b>6,738</b>   | <b>1,473</b>             | <b>8,211</b>   |
| <b>Comprehensive income for the year</b>                                  |            |  |                             |                     |  |                |                          |                |
| Profit/loss for the year  |            |  |                             |                     | 90,835                                     | 90,835         | -601                     | 90,234         |
| Other comprehensive income for the year                                   |            |  |                             | -3,250              |  | -3,250         |                          | -3,250         |
| <b>Comprehensive income for the year</b>                                  |            | <b>-</b>   | <b>-</b>                    | <b>-3,250</b>       | <b>90,835</b>                              | <b>87,586</b>  | <b>-601</b>              | <b>86,985</b>  |
| New share issue   |            | 131,684  | 107,910                     |                     |  | 239,594        |                          | 239,594        |
| Non-controlling interest upon acquisition of a partially-owned subsidiary |            |  |                             |                     |  |                | 827                      | 827            |
| Acquisition of shares from non-controlling interest                       |            |  |                             |                     | -20,213                                    | -20,213        | -820                     | -21,033        |
| Outstanding convertible bonds   |            |  | 31,960                      |                     |  | 31,960         |                          | 31,960         |
| <b>Closing balance, 31 December 2010</b>                                  |            | <b>132,684</b>                                     | <b>140,670</b>              | <b>-838</b>         | <b>73,149</b>                              | <b>345,665</b> | <b>879</b>               | <b>346,544</b> |

## Consolidated statement of cash flow

| (SEK thousands)  | Note | 2010           | 2009            |
|--|------|----------------|-----------------|
| <b>Operating activities</b>                                |      |                |                 |
| Profit before tax  |      | 115,829        | 113,331         |
| Adjustments for items not included in cash flow            | 25   | 12,363         | 14,372          |
| Income tax paid  |      | -2,030         | -               |
| <b>Cash flow from operating activities</b>                 |      | <b>126,162</b> | <b>127,703</b>  |
| <i>Cash flow from changes in working capital</i>           |      |                |                 |
| Increase (-)/decrease (+) in inventories                   |      | -95,492        | -3,887          |
| Increase (-)/decrease (+) in other current receivables     |      | 9,648          | 72,909          |
| Increase (+)/decrease (-) of accounts payable              |      | 40,133         | -39,635         |
| Increase (+)/decrease (-) of other non-current liabilities |      | 12,835         | 61,848          |
| <b>Total change in working capital</b>                     |      | <b>-32,876</b> | <b>91,235</b>   |
| <b>Net cash flow from operations</b>                       |      | <b>93,286</b>  | <b>218,938</b>  |
| <b>Investing activities</b>                                |      |                |                 |
| Investments in activities                                  | 5    | -4,459         | -6,231          |
| Investments in other non-current assets                    |      | -5,373         | -3,226          |
| Other cash flow from investing activities                  |      | -              | 3,861           |
| <b>Cash flow to investing activities</b>                   |      | <b>-9,832</b>  | <b>-5,596</b>   |
| <b>Financing activities</b>                                |      |                |                 |
| New share issue  |      | 594            | -               |
| Acquisition of shares from non-controlling interest        | 5    | -21,033        | -               |
| Group contributions paid                                   |      | -126,400       | -79,146         |
| Cash pool accounts, net                                    |      | 250,647        | -25,760         |
| Issue of convertible loan                                  | 27   | 250,000        | -               |
| Dividend to shareholders                                   |      | -              | -150,000        |
| <b>Cash flow from/to financing activities</b>              |      | <b>353,808</b> | <b>-254,906</b> |
| <b>Change in cash and cash equivalents</b>                 |      | <b>437,262</b> | <b>-41,564</b>  |
| <b>Cash and cash equivalents at year's start</b>           |      | <b>3,045</b>   | <b>42,046</b>   |
| Exchange rate difference for cash and cash equivalents     |      | -8,964         | 2,563           |
| <b>Cash and cash equivalents, year's end</b>               |      | <b>431,343</b> | <b>3,045</b>    |



## Income statement – parent company

| (SEK thousands)                     | Note           | 2010           | 2009           |
|-------------------------------------|----------------|----------------|----------------|
| Revenue                             |                | 55             | -              |
| <b>Gross profit</b>                 |                | <b>55</b>      | <b>-</b>       |
| Administrative expenses             |                | -17,814        | -77            |
| <b>Operating loss</b>               | 21, 23, 24, 26 | <b>-17,759</b> | <b>-77</b>     |
| Loss from shares of subsidiaries    | 7              | -71            | -15,748        |
| Interest income and similar items   | 7              | 454            | 979            |
| Interest expenses and similar items | 7, 27          | -8,704         | -5,156         |
| <b>Loss before tax</b>              |                | <b>-26,080</b> | <b>-20,002</b> |
| Tax                                 | 8              | 6,682          | 1,119          |
| <b>Loss for the year</b>            |                | <b>-19,399</b> | <b>-18,883</b> |

## Statement of comprehensive income – parent company

| (SEK thousands)                                | 2010           | 2009           |
|--|----------------|----------------|
| Loss for the year                              | -19,399        | -18,883        |
| <i>Other comprehensive income</i>              | -              | -              |
| <b>Other comprehensive income for the year</b> | <b>-</b>       | <b>-</b>       |
| <b>Comprehensive income for the year</b>       | <b>-19,399</b> | <b>-18,883</b> |

## Balance sheet - parent company

| (SEK thousands)  | Note | 31 december<br>2010 | 31 december<br>2009 |
|--|------|---------------------|---------------------|
| <b>ASSETS</b>  |      |                     |                     |
| <b>Non-current assets</b>                                    |      |                     |                     |
| <i>Financial non-current assets</i>                          |      |                     |                     |
| Participation in subsidiaries                                | 11   | 280,282             | 301,490             |
| <b>Total financial non-current assets</b>                    |      | <b>280,282</b>      | <b>301,490</b>      |
| <b>Total non-current assets</b>                              |      | <b>280,282</b>      | <b>301,490</b>      |
| <b>Current assets</b>  |      |                     |                     |
| <i>Current receivables</i>                                   |      |                     |                     |
| Accounts receivable  |      | 154                 | -                   |
| Current interest-bearing liabilities, Group                  |      | 27,399              | -                   |
| Receivables in Group companies                               |      | 138,367             | 130,660             |
| Current interest-bearing receivables, MTG cash pool accounts |      | -                   | 142                 |
| Other receivables  |      | 269                 | 927                 |
| Prepaid expense and accrued income                           | 14   | 1,025               | -                   |
| <b>Total current receivables</b>                             |      | <b>167,214</b>      | <b>131,729</b>      |
| Cash and bank  | 20   | 407,444             | -                   |
| <b>Total cash and cash equivalents</b>                       |      | <b>407,444</b>      | <b>-</b>            |
| <b>Total current assets</b>                                  |      | <b>574,658</b>      | <b>131,729</b>      |
| <b>Total assets</b>  |      | <b>854,940</b>      | <b>433,219</b>      |

| (SEK thousands)   | Note | 31 december<br>2010 | 31 december<br>2009 |
|---|------|---------------------|---------------------|
| <b>EQUITY AND LIABILITIES</b>                                     |      |                     |                     |
| <b>Equity</b>   | 16   |                     |                     |
| <i>Restricted equity</i>  |      |                     |                     |
| Share capital   |      | 132,684             | 1,000               |
| Statutory reserve   |      | 800                 | 800                 |
| <b>Total restricted equity</b>                                    |      | <b>133,484</b>      | <b>1,800</b>        |
| <i>Non-restricted equity</i>                                      |      |                     |                     |
| Share premium reserve   |      | 139,870             | -                   |
| Profit brought forward  |      | 95,812              | 33,323              |
| Loss for the year   |      | -19,399             | -18,883             |
| <b>Total non-restricted equity</b>                                |      | <b>216,283</b>      | <b>14,440</b>       |
| <b>Total equity</b>   |      | <b>349,767</b>      | <b>16,240</b>       |
| <b>Provisions</b>   |      |                     |                     |
| Tax provisions  | 8    | 11,255              | -                   |
| Other provisions  | 17   | 2,660               | -                   |
| <b>Total provisions</b>   |      | <b>13,915</b>       | <b>-</b>            |
| <b>Non-current liabilities</b>                                    |      |                     |                     |
| Liabilities, MTG cash pool accounts                               |      | -                   | 230,049             |
| Convertible bonds   | 27   | 207,204             | -                   |
| <b>Total non-current liabilities</b>                              |      | <b>207,204</b>      | <b>230,049</b>      |
| <b>Current liabilities</b>  |      |                     |                     |
| Accounts payable  |      | 612                 | -                   |
| Other interest-bearing liabilities, subsidiaries                  |      | 241,311             | -                   |
| Liabilities to subsidiaries                                       |      | -                   | 60,505              |
| Liabilities to MTG companies                                      |      | -                   | 126,400             |
| Current tax liabilities   |      | 22,459              | -                   |
| Other liabilities   |      | 2,689               | -                   |
| Accrued expenses and prepaid income                               | 18   | 16,983              | 25                  |
| <b>Total current liabilities</b>                                  |      | <b>284,054</b>      | <b>186,930</b>      |
| <b>Total liabilities</b>  |      | <b>505,173</b>      | <b>416,979</b>      |
| <b>Total equity and liabilities</b>                               |      | <b>854,940</b>      | <b>433,219</b>      |
| <b>Pledged assets and contingent liabilities – parent company</b> |      |                     |                     |
| Pledged assets  |      | None                | None                |
| Contingent liabilities  | 19   | 5,150               | None                |

## Statement of changes in equity – parent company

| (SEK thousands)                                 | Note 16 | Restricted equity |                   | Non-restricted equity |                        |                          | Total equity   |
|---|---------|-------------------|-------------------|-----------------------|------------------------|--------------------------|----------------|
|   |         | Share capital     | Statutory reserve | Share premium reserve | Profit brought forward | Profit/loss for the year |                |
| <b>Opening balance, 1 January 2009</b>          |         | <b>1,000</b>      | <b>800</b>        | <b>-</b>              | <b>181,971</b>         | <b>-1,784</b>            | <b>181,987</b> |
| <b>Comprehensive income for the year</b>        |         |                   |                   |                       |                        |                          |                |
| Loss for the year                               |         |                   |                   |                       |                        | -18,883                  | -18,883        |
| Other comprehensive income for the year         |         |                   |                   |                       |                        |                          |                |
| <b>Comprehensive income for the year</b>        |         | <b>-</b>          | <b>-</b>          | <b>-</b>              | <b>-</b>               | <b>-18,883</b>           | <b>-18,883</b> |
| Appropriation of profits                        |         |                   |                   |                       | -1,784                 | 1,784                    | -              |
| Group contribution to MTG companies, net of tax |         |                   |                   |                       | 3,136                  |                          | 3,136          |
| Dividend to shareholders (SEK 75,000 per share) |         |                   |                   |                       | -150,000               |                          | -150,000       |
| <b>Closing balance, 31 December 2009</b>        |         | <b>1,000</b>      | <b>800</b>        | <b>-</b>              | <b>33,323</b>          | <b>-18,883</b>           | <b>16,240</b>  |
| <b>Opening balance, 1 January 2010</b>          |         | <b>1,000</b>      | <b>800</b>        | <b>-</b>              | <b>33,323</b>          | <b>-18,883</b>           | <b>16,240</b>  |
| <b>Comprehensive income for the year</b>        |         |                   |                   |                       |                        |                          |                |
| Loss for the year                               |         |                   |                   |                       |                        | -19,399                  | -19,399        |
| Other comprehensive income for the year         |         |                   |                   |                       |                        |                          |                |
| <b>Comprehensive income for the year</b>        |         | <b>-</b>          | <b>-</b>          | <b>-</b>              | <b>-</b>               | <b>-19,399</b>           | <b>-19,399</b> |
| Appropriation of profits                        |         |                   |                   |                       | -18,883                | 18,883                   | -              |
| New share issue                                 |         | 131,684           |                   | 107,910               |                        |                          | 239,594        |
| Group contribution received, net after tax      |         |                   |                   |                       | 97,595                 |                          | 97,595         |
| Group contribution paid, net after tax          |         |                   |                   |                       | -16,215                |                          | -16,215        |
| Merger profit                                   |         |                   |                   |                       | -10                    |                          | -10            |
| Outstanding convertible bonds                   |         |                   |                   | 31,960                |                        |                          | 31,960         |
| <b>Closing balance, 31 December 2010</b>        |         | <b>132,684</b>    | <b>800</b>        | <b>139,870</b>        | <b>95,810</b>          | <b>-19,399</b>           | <b>349,767</b> |

## Cash flow statement – parent company

| (SEK thousands)   | 2010           | 2009           |
|---|----------------|----------------|
| <b>Cash flow from operations</b>  |                |                |
| Loss before tax   | -26,079        | -20,002        |
| Income tax paid   | -51            | -              |
| <i>Adjustments for items not included in cash flow</i>                      |                |                |
| Interest that does not affect cash flow                                     | 640            | -              |
| Profit from shares of subsidiaries  | -              | 15,748         |
| <b>Total adjustments for items not included in cash flow</b>                | <b>640</b>     | <b>15,748</b>  |
| <b>Cash flow from operating activities before change in working capital</b> | <b>-25,490</b> | <b>-4,254</b>  |
| <i>Cash flow from changes in working capital</i>                            |                |                |
| Increase (-)/decrease (+) of accounts receivable                            | -154           | -              |
| Increase (-)/decrease (+) in other current receivables                      | 96,204         | -43,070        |
| Increase (+)/decrease (-) of accounts payable                               | 612            | -83            |
| Increase (+)/decrease (-) of other non-current liabilities                  | 256,942        | 91,013         |
| <b>Total cash flow from changes in working capital</b>                      | <b>353,604</b> | <b>47,860</b>  |
| <b>Cash flow from operating activities</b>                                  | <b>328,114</b> | <b>43,606</b>  |
| <b>Investing activities</b>   |                |                |
| Investment in shares in subsidiaries  | -31,815        | -63,725        |
| <b>Cash flow from investing activities</b>                                  | <b>-31,815</b> | <b>-63,725</b> |
| <b>Financing activities</b>   |                |                |
| Convertible bonds   | 27 250,000     | -              |
| Dividend to shareholders  | -              | -150,000       |
| Change in cash pool accounts, MTG   | 8,951          | 246,129        |
| New share issue   | 594            | -              |
| Group contribution, paid out  | -148,400       | -76,010        |
| <b>Cash flow from financing activities</b>                                  | <b>111,145</b> | <b>20,119</b>  |
| <b>Cash flow for the year</b>   | <b>407,444</b> | <b>-</b>       |
| Cash and cash equivalents, beginning of the year                            | -              | -              |
| <b>Cash and cash equivalents, year's end</b>                                | <b>407,444</b> | <b>-</b>       |

## Notes

Figures in SEK thousands unless otherwise specified

### Note 1 General information

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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 2010 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 20 April 2011.

### Note 2 Accounting policies and valuation principles

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#### 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 thousand, 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 New and amended standards applied by the Group

The next section describes the amended accounting policies that the Group has applied since 1 January 2010. Other IFRS amendments effective as of 2010 had no material impact on the consolidated accounts.

#### *Business combinations and consolidated accounts*

As of 1 January 2010, the Group applies the revised IFRS 3 Business Combinations and amended IAS 27 Consolidated and Separate Financial Statements. The amended accounting policies involve: changes to the definition of business activities, expensing transaction fees for business combinations, fixing contingent considerations at fair value on the date of acquisition, and recognising effects of revaluation of liabilities related to contingent considerations as income or expense in profit/loss for the year. Other news includes two alternative methods for recognising non-controlling interest and goodwill, either at fair value, e.g. goodwill is included in non-controlling interest, or the non-controlling interest is included in net assets. Choice of method is determined individually for each acquisition. Acquisitions made after receiving controlling interest are considered owner transactions and are recognised directly in equity, constituting a change to the CDON Group's previous policy, which was to recognise surplus amounts as goodwill.

Changes to the policies have not had a retroactive effect on the Company's financial statements, so no figures in the financial statements have been adjusted.

### *Presentation of the financial statements*

The IASB's annual improvements that were published in May 2010 changed the requirements of IAS 1 Presentation of Financial Statements regarding the presentation of the statement of changes in equity. The company has elected to implement these changes early, starting with the 2010 annual report. The changes mean that reconciliation of the year's change in each component of equity in the statement of changes in equity, such as reserves for accumulated other comprehensive income, do not need to specify each item of other comprehensive income. The company has, as permitted under this amendment, chosen to provide information with such detailed reconciliation of reserves and other components of equity in the notes instead of in the statement of changes in equity. Such detailed reconciliation was also provided in the notes of the 2009 annual report, but appears to be required in the statement of changes in equity under the version of IAS 1 that applies to 2010, without said early adoption. Though, in accordance with the wording of the amended IAS 1, the previous year's comprehensive income line item has been split up with separate specification of profit/loss for the year and other comprehensive income for the year in the statement of changes in equity. The presentation changes apply to the current year and the comparative year. The changes did not result in any adjustments to amounts in the financial statements.

### **2.1.2 New IFRSs that have not yet been implemented**

Several new or amended IFRSs 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.

As of 2013, the new IFRS 9 Financial Instruments is intended to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 may not be applied as it is not approved yet by the EU. Its effect on the Group is considered insignificant.

These changes in accounting policies with future application should not have any effect on the consolidated financial statements:

- Amendments to IAS 24 Related Party Disclosures, mainly regarding information on government-related companies, but also on the definition of related parties
- Amendments to IAS 32 Financial Instruments: Presentation, regarding presentation of new share issues
- Amendments to IFRS 7 Financial Instruments: Disclosures, regarding new disclosure requirements for transferred financial assets
- Amendments to IFRIC 14/IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, regarding advance payments to cover minimum funding requirements
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- Annual improvements to IFRSs that are not already adopted, especially among those published in May 2010

### **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.

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

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.

### **Sale of non-controlling interest**

Sale of non-controlling interest, where some controlling interest is retained, is recognised as a transaction in equity; that is, between the parent company's owners and the non-controlling interest. The difference between retained liquidity and the non-controlling interest's proportional share of acquired net assets is recognised in retained profits.

### **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.

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 any impairment loss (see accounting policy 2.15).

### 2.13.2.3 Customer relationships

Customer relationships are carried at cost less accumulated amortisation (see below) and any 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 (1) observable past events that adversely affect the possibility of recovering the cost and (2) a significant or prolonged decline in the fair value of a financial investment classified as an available-for-sale financial asset.

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. 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.

#### **2.17 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 previously had a program for share-based compensation, but it was closed in connection with the Group's initial public offering. The effect of the closure of the program was that the earlier provisions for social security costs related to the program were reversed (see Note 17).

## **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 2010 were the same as stated above for the Group.

The changed accounting policies for the revised IFRS 3 Business Combinations and amended IAS 27 Consolidated Accounts and separate financial statements that are used in the Group are not applicable to the parent company as regards transaction fees and contingent considerations. More information is available below in the Subsidiaries section.

#### **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/receivable 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 Company reports Group contributions and shareholder contributions per the Swedish Financial Reporting Board's UFR 2 statement. 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 applicable. Group contributions are recognised according to financial implications. This means that Group contributions made and received with the objective of minimising total Group tax are recognised directly against retained profits after deduction for its actual tax effect.



Group contributions that are the equivalent of a dividend are recognised as a dividend. This means that the Group contributions received and their tax effects are recognised in the income statement. Group contributions provided and their current tax effects are recognised directly against retained profits.

Group contributions that are the equivalent of shareholder contributions are recognised by the recipient directly against retained profits with consideration given to the current tax effect. The issuer reports Group contributions and their current tax effects as an investment in participations in subsidiaries, unless impairment is needed.

### **Note 3 Estimates and assessments**

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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 information

Group operations are divided into three 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 performance.

- The Entertainment segment comprises CDON.COM, BookPlus.fi, and Lekmer.com, internet-based retailers of films, games, music, books, home electronics, and toys.
- The Sports & Health segment retails health products and is comprised of Gymgrossisten.com, Bodystore.com and Fitnesstukku.fi.
- The Fashion segment is a retailer of clothes and shoes for women and children, and comprise Nelly.com, Linuslotta.com, and Heppo.com.

Subsidiaries are attributable entirely to their respective segment.

| (SEK thousands)             | External revenue |                  | Operating profit/loss |                |
|-----------------------------|------------------|------------------|-----------------------|----------------|
|                             | 2010             | 2009             | 2010                  | 2009           |
| Entertainment               | 1,492,154        | 1,332,828        | 99,734                | 92,719         |
| Sports & Health             | 433,167          | 210,709          | 16,078                | 26,200         |
| Fashion                     | 284,658          | 202,625          | 35,358                | 7,011          |
| Group-wide and eliminations | 55               | -                | -16,542               | -791           |
| <b>Total</b>                | <b>2,210,034</b> | <b>1,746,162</b> | <b>134,628</b>        | <b>125,139</b> |

Through 2009, companies in the Entertainment segment have provided other segments with goods and certain services. These sales were conducted at market price.

| (SEK thousands)                    | Internal sales |              |
|------------------------------------|----------------|--------------|
|                                    | 2010           | 2009         |
| Entertainment                      | -              | 3,865        |
| Sports & Health                    | -              | -            |
| Fashion                            | -              | -            |
| Parent company and other companies | -              | -            |
| <b>Total internal sales</b>        | <b>-</b>       | <b>3,865</b> |

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

| (SEK thousands) | Revenue          |                  | Non-current assets |                |
|-----------------|------------------|------------------|--------------------|----------------|
|                 | 2010             | 2009             | 2010               | 2009           |
| Sweden          | 1,176,894        | 900,979          | 237,232            | 231,189        |
| Norway          | 492,655          | 403,373          | -                  | -              |
| Finland         | 328,184          | 276,938          | 21,272             | 23,325         |
| Denmark         | 197,961          | 159,733          | -                  | -              |
| Other Europe    | 14,340           | 5,139            | -                  | -              |
| <b>Total</b>    | <b>2,210,034</b> | <b>1,746,162</b> | <b>258,504</b>     | <b>254,514</b> |

| Sales per type of income (SEK thousands) | 2010             | 2009             |
|--|------------------|------------------|
| Products                                 | 2,165,183        | 1,715,085        |
| Services                                 | 44,851           | 31,077           |
| <b>Total revenue</b>                     | <b>2,210,034</b> | <b>1,746,162</b> |

## Note 5 Business combinations

### Acquisitions 2010

In 2010, the Group acquired 90.1% of the capital and votes in Lekmer AB, as well as additional shares from non-controlling interests in NLY Scandinavia AB and Linus & Lotta Postorder AB. A total of 5.54% of capital and votes in NLY Scandinavia AB and 9.9% of capital and votes in Linus & Lotta Postorder AB were acquired from non-controlling interests. As such, the Group now owns 95.5% of NLY Scandinavia AB and 100% of Linus & Lotta Postorder AB. Lekmer AB is reported in the Entertainment segment and NLY Scandinavia AB and Linus & Lotta Postorder AB are reported in the Fashion segment.

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

### Summary of acquisitions

| Group (SEK thousands)                                     | 2010           |   |              |
|---|----------------|---|--------------|
|   | Net cash flow  | Net identifiable assets and liabilities | Goodwill     |
| Lekmer AB   | -3,392         | 4,643                                   | 3,697        |
| NLY Scandinavia AB  | -21,033        | -                                       | -            |
| Linus & Lotta Postorder AB                                | -              | -                                       | -            |
| Additional consideration from 2007, Helsingin Dataclub Oy | -1,067         | -                                       | 1,067        |
| <b>Total</b>  | <b>-25,492</b> | <b>4,643</b>                            | <b>4,764</b> |

### 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 leading online retailer of toys in Sweden. Lekmer.com's earnings has been fully consolidated within the Entertainment segment from 1 April 2010. Lekmer.com has also subsequently been rolled out on a pan-Nordic basis. During the nine months until 31 December 2010, the subsidiary contributed SEK 27,499 thousand to consolidated revenue and SEK 7,207 thousand to Group loss after tax. If the acquisition had occurred on 1 January 2010, Group management estimates that consolidated revenue would have totalled SEK 2,212,024 thousand, and profit for the year would have been SEK 90,580 thousand.

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 thousands):               | Carrying amount |
|--|-----------------|
| Property, plant, and equipment                     | 90              |
| Intangible non-current assets                      | 6,309           |
| Inventory  | 2,985           |
| Accounts receivable and other receivables          | 433             |
| Cash and cash equivalents                          | -               |
| Deferred tax liability                             | -1,659          |
| Accounts payable and other operating liabilities   | -3,514          |
| <b>Net identifiable assets and liabilities</b>     | <b>4,643</b>    |
| Non-controlling interest                           | -827            |
| Goodwill on acquisition                            | 3,697           |
| <b>Purchase price</b>                              | <b>7,514</b>    |
| Cash and cash equivalents in acquired companies    | -               |
| Provisions for conditional purchase considerations | -4,122          |
| <b>Net cash flow</b>                               | <b>3,392</b>    |

#### Contingent consideration

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

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

As of 31 December, the contingent consideration decreased by SEK 586 thousand as the probability-adjusted gross profit after a new calculation is expected to be lower than original estimates.

#### Acquisitions 2009

The Group acquired additional shares from minority holders during the year. A portion, 0.5% of capital and votes, of the minority holding in NLY Scandinavia AB was acquired, and a contingent consideration price was paid for Helsingin Dataclub OY. These acquisitions were reported in the Fashion and Entertainment segments, respectively.

| Group (SEK thousands)  | 2009          |   |              |
|--|---------------|---|--------------|
|  | Net cash flow | Net identifiable assets and liabilities | Goodwill     |
| Acquisition of non-controlling interests in NLY Scandinavia AB             | 3,225         | -                                       | 3,225        |
| Additional purchase price from previous years, paid, Helsingin Dataclub OY | 3,006         | -                                       | 3,006        |
| <b>Total</b>   | <b>6,231</b>  | <b>-</b>                                | <b>6,231</b> |

#### Acquisitions after the reporting date

On 31 January, 90.1% of RUM21.se, a Swedish online retailer of designer brand furniture and interior design, was acquired. RUM21.se was consolidated into the Group from 1 February 2011. See more in Note 29.

## Note 6 Other income and expenses

| Group (SEK thousands)  | 2010         | 2009          |
|--|--------------|---------------|
| <b>Other operating income</b>                                |              |               |
| Gain from sale of non-current assets                         | 120          | 2,148         |
| Exchange gains on operating receivables/liabilities          | 1,084        | 59            |
| Revaluation regarding contingent consideration for Lekmer AB | 586          | -             |
| <b>Total</b>   | <b>1,790</b> | <b>2,207</b>  |
| <b>Other operating expenses</b>                              |              |               |
| Exchange losses on operating receivables/liabilities         | -            | -1,473        |
| <b>Total</b>   | <b>-</b>     | <b>-1,473</b> |

## Note 7 Financial items

### Group

| (SEK thousands)                              | 2010           | 2009           |
|--|----------------|----------------|
| Interest income from MTG cash pool accounts  | 753            | 738            |
| Interest income, other                       | 236            | -              |
| <b>Finance income</b>                        | <b>989</b>     | <b>738</b>     |
| Interest expenses:                           |                |                |
| - MTG cash pool accounts                     | -10,078        | -8,287         |
| - Current loans from MTG                     | -644           | -              |
| - Convertible bonds (Note 27)                | -1,123         | -              |
| - Interest expenses, other                   | -954           | -              |
| Net translation differences                  | -6,712         | -4,195         |
| Other  | -277           | -64            |
| <b>Financial expenses</b>                    | <b>-19,788</b> | <b>-12,546</b> |
| <b>Net financial items</b>                   | <b>-18,799</b> | <b>-11,808</b> |
| <b>Parent company</b>                        |                |                |
| Impairment loss, shares in subsidiaries      | -71            | -15,748        |
| <b>Total</b>                                 | <b>-71</b>     | <b>-15,748</b> |
| Interest income from MTG cash pool accounts  | 167            | 30             |
| Interest income from subsidiaries CDON Group | 84             | 944            |
| Net translation differences                  | -              | 5              |
| Other  | 203            | -              |
| <b>Total</b>                                 | <b>454</b>     | <b>979</b>     |
| Interest expenses:                           |                |                |
| - MTG cash pool accounts                     | -6,815         | -5,051         |
| - Current loans from MTG                     | -644           | -              |
| - Subsidiaries CDON Group                    | -122           | -105           |
| - Convertible bonds (Note 27)                | -1,123         | -              |
| Net translation differences                  | -              | -              |
| <b>Total</b>                                 | <b>-8,704</b>  | <b>-5,156</b>  |
| <b>Net financial items</b>                   | <b>-8,321</b>  | <b>-19,925</b> |

## Note 8 Tax

### Group

| Distribution of tax expense (SEK thousands)      | 2010           | 2009           |
|--|----------------|----------------|
| <b>Current tax expense</b>                       |                |                |
| Tax expense for the year                         | -27,117        | -34,824        |
| Adjustment of tax attributable to prior years    | 360            | -286           |
| <b>Total</b>                                     | <b>-26,757</b> | <b>-35,110</b> |
| <b>Deferred tax</b>                              |                |                |
| Deferred tax on temporary differences            | 1,162          | 2,275          |
| <b>Total</b>                                     | <b>1,162</b>   | <b>2,275</b>   |
| <b>Total recognised tax expense in the Group</b> | <b>-25,595</b> | <b>-32,835</b> |

| Reconciliation of tax expense (SEK thousands)             | 2010           | %            | 2009           | %            |
|---|----------------|--------------|----------------|--------------|
| Profit before tax   | 115,829        |              | 113,331        |              |
| Tax as per applicable tax rate for parent company         | -30,463        | -26.3        | -29,634        | -26.3        |
| Effect of other tax rates for foreign subsidiaries        | -17            | 0.0          | -25            | 0.0          |
| Non-taxable income  | 1,352          | 1.2          | -              | -            |
| Non-deductible expenses                                   | -363           | -0.3         | -1,043         | -0.9         |
| Utilization of previously uncapitalised deficit deduction | 5,424          | 4.7          | -              | -            |
| Losses on which deferred tax was not recognised           | -1,888         | -1.6         | -3,458         | -3.1         |
| Revalued loss carry-forward                               | -              | -            | 1,611          | 1.4          |
| Tax attributable to prior years                           | 360            | 0.3          | -286           | -0.3         |
| <b>Effective tax/tax rate</b>                             | <b>-25,595</b> | <b>-22.1</b> | <b>-32,835</b> | <b>-29.1</b> |

| (SEK thousands)                     | 31 december<br>2010 | 31 december<br>2009 |
|-------------------------------------|---------------------|---------------------|
| <b>Deferred tax liability</b>       |                     |                     |
| Equipment, tools, and installations | 298                 | 664                 |
| Intellectual property rights        | 15,195              | 14,387              |
| Convertible bonds                   | 11,255              | -                   |
| <b>Total</b>                        | <b>26,748</b>       | <b>15,051</b>       |
| <b>Net deferred tax</b>             | <b>-26,748</b>      | <b>-15,051</b>      |

The changes in net temporary differences are recognised below:

| (SEK thousands)                     | 2010                          |                        |                                |                         |            | Closing balance, 31<br>December |
|-------------------------------------|-------------------------------|------------------------|--------------------------------|-------------------------|------------|---------------------------------|
|                                     | Opening balance, 1<br>January | Deferred tax<br>income | Acquisition of<br>subsidiaries | Recognised in<br>equity | Other      |                                 |
| <i>Temporary differences:</i>       |                               |                        |                                |                         |            |                                 |
| Equipment, tools, and installations | -664                          | 161                    |                                |                         | 205        | -298                            |
| Intellectual property rights        | -14,387                       | 851                    | -1,659                         |                         |            | -15,195                         |
| Non-current liabilities             | -                             | 150                    |                                | -11,405                 |            | -11,255                         |
| <b>Total</b>                        | <b>-15,051</b>                | <b>1,162</b>           | <b>-1,659</b>                  | <b>-11,405</b>          | <b>205</b> | <b>-26,748</b>                  |

| (SEK thousands)                     | 2009                          |                                |                                 |
|-------------------------------------|-------------------------------|--------------------------------|---------------------------------|
|                                     | Opening balance, 1<br>January | Deferred tax<br>expense/income | Closing balance, 31<br>December |
| Loss carry-forwards                 | 1,364                         | -1,364                         | -                               |
| <i>Temporary differences:</i>       |                               |                                |                                 |
| Equipment, tools, and installations | -2,516                        | 1,852                          | -664                            |
| Intellectual property rights        | -16,174                       | 1,787                          | -14,387                         |
| <b>Total</b>                        | <b>-17,326</b>                | <b>2,275</b>                   | <b>-15,051</b>                  |

At 31 December 2010, recognised loss carry-forwards without expiration date in the Group were SEK 0 thousand (0). The 2010 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. As a result, deferred tax asset is not recognised for some countries.

| Loss carry-forwards for which no deferred tax asset is recognised, per expiration date | 2010          | 2009          |
|--|---------------|---------------|
| No expiry date   | 7,179         | 23,364        |
| Expiration date 2019   | 5,588         | -             |
| <b>Total</b>   | <b>12,767</b> | <b>23,364</b> |

#### Parent company

| Distribution of tax expense (SEK thousands) | 2010         | 2009         |
|---|--------------|--------------|
| Current tax on year's profit                | 6,532        | 1,119        |
| <b>Total tax expense</b>                    | <b>6,532</b> | <b>1,119</b> |

#### Deferred tax

|                                       |            |          |
|---------------------------------------|------------|----------|
| Deferred tax on temporary differences | 150        | -        |
| <b>Total</b>                          | <b>150</b> | <b>-</b> |

|   |              |              |
|---|--------------|--------------|
| <b>Total recognised tax expense in parent company</b> | <b>6,682</b> | <b>1,119</b> |
|---|--------------|--------------|

| Reconciliation of tax expense (SEK thousand)      | 2010         | %            | 2009         | %           |
|---|--------------|--------------|--------------|-------------|
| Loss before tax                                   | -26,080      |              | -20,002      |             |
| Tax as per applicable tax rate for parent company | 6,859        | -26.3        | 5,261        | -26.3       |
| Non-deductible expenses                           | -169         | 0.6          | -4,142       | 20.7        |
| Other   | -158         | 0.6          | -            | -           |
| <b>Effective tax/tax rate</b>                     | <b>6,532</b> | <b>-25.0</b> | <b>1,119</b> | <b>-5.6</b> |

Changes in temporary differences are reported below:

| (SEK thousands)               | 2010                       |                      |                      |                              |
|-------------------------------|----------------------------|----------------------|----------------------|------------------------------|
|                               | Opening balance, 1 January | Deferred tax revenue | Recognised in equity | Closing balance, 31 December |
| <i>Temporary differences:</i> |                            |                      |                      |                              |
| Non-current liabilities       | -                          | 150                  | -11,405              | -11,255                      |
| <b>Total</b>                  | <b>-</b>                   | <b>150</b>           | <b>-11,405</b>       | <b>-11,255</b>               |

## Note 9 Intangible assets

### Group

#### Internally developed intangible assets

| Development expenses                         | 2010          | 2009          |
|--|---------------|---------------|
| <b>Opening accumulated cost</b>              | <b>26,790</b> | <b>25,226</b> |
| Investments                                  | 1,651         | 1,564         |
| Reclassifications                            | -16,535       | -             |
| <b>Closing accumulated acquisition value</b> | <b>11,906</b> | <b>26,790</b> |
| <b>Opening accumulated amortisation</b>      | <b>-2,967</b> | <b>-997</b>   |
| Year's amortisation                          | -2,072        | -1,970        |
| Reclassifications                            | 140           | -             |
| <b>Closing accumulated amortisation</b>      | <b>-4,899</b> | <b>-2,967</b> |
| <b>Carrying amount</b>                       | <b>7,007</b>  | <b>23,823</b> |

This item refers to costs for the Group's web platform.

Amortisation expenses of SEK 2,072 thousand (1,970) are included in sales & administrative expenses.

Only external expenses have been capitalised. No loan expenses have been capitalised.

| Domains                                      | 2010         | 2009     |
|--|--------------|----------|
| <b>Opening accumulated cost</b>              | <b>-</b>     | <b>-</b> |
| Investments                                  | 540          | -        |
| Reclassifications                            | 643          | -        |
| <b>Closing accumulated acquisition value</b> | <b>1,182</b> | <b>-</b> |
| <b>Opening accumulated amortisation</b>      | <b>-</b>     | <b>-</b> |
| Year's amortisation                          | -194         | -        |
| Reclassifications                            | -263         | -        |
| <b>Closing accumulated amortisation</b>      | <b>-457</b>  | <b>-</b> |
| <b>Carrying amount</b>                       | <b>726</b>   | <b>-</b> |

The item refers to expenses to register and maintain the company's internet domains.

Amortisation expenses of SEK 194 thousand (0) are included in sales & administrative expenses.

Only external expenses have been capitalised. No loan expenses have been capitalised.

#### Acquisition of intangible assets

| Trademarks                                   | 2010          | 2009          |
|--|---------------|---------------|
| <b>Opening accumulated cost</b>              | <b>44,508</b> | <b>44,508</b> |
| Investments                                  | 5,138         | -             |
| Reclassifications                            | 4,388         | -             |
| <b>Closing accumulated acquisition value</b> | <b>54,034</b> | <b>44,508</b> |
| <b>Opening accumulated amortisation</b>      | <b>-5,635</b> | <b>-2,695</b> |
| Year's amortisation                          | -             | -2,940        |
| Reclassifications                            | 5,635         | -             |
| <b>Closing accumulated amortisation</b>      | <b>-</b>      | <b>-5,635</b> |
| <b>Carrying amount</b>                       | <b>54,034</b> | <b>38,873</b> |

The item refers to trademarks for Gymgrossisten and Lekmer.

Amortisation expenses of SEK 0 thousand (2,940) are included in sales & administrative expenses.



| Customer relationships                       | 2010          | 2009 |
|--|---------------|------|
| <b>Opening accumulated cost</b>              | -             | -    |
| Investments                                  | 1,171         | -    |
| Reclassifications                            | 11,504        | -    |
| <b>Closing accumulated acquisition value</b> | <b>12,675</b> | -    |
| <b>Opening accumulated amortisation</b>      | -             | -    |
| Year's amortisation                          | -3,052        | -    |
| Reclassifications                            | -5,512        | -    |
| <b>Closing accumulated amortisation</b>      | <b>-8,564</b> | -    |
| <b>Carrying amount</b>                       | <b>4,111</b>  | -    |

The item refers to identifiable customer relationships from the acquisitions of Gymgrossisten Sweden AB and Lekmer AB.

Amortisation expenses of SEK 3,052 thousand (0) are included in sales & administrative expenses.

| Goodwill                                     | 2010           | 2009           |
|--|----------------|----------------|
| <b>Opening accumulated cost</b>              | <b>189,865</b> | <b>184,895</b> |
| Investments                                  | 4,764          | 6,264          |
| Additional acquisition expenses              | 687            | -              |
| Other  | -3,225         | -              |
| Translation differences                      | -3,125         | -1,294         |
| <b>Closing accumulated acquisition value</b> | <b>188,966</b> | <b>189,865</b> |
| <b>Carrying amount</b>                       | <b>188,966</b> | <b>189,865</b> |

Goodwill refers to goodwill that originated from the acquisition of Gymgrossisten Sweden AB, Lekmer AB, NLY Scandinavia AB, and Linus&Lotta Postorder 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 thousands) | 2010           | 2009           |
|-----------------|----------------|----------------|
| Sports & Health | 139,940        | 139,256        |
| Entertainment   | 24,969         | 23,325         |
| Fashion         | 24,057         | 27,284         |
| <b>Total</b>    | <b>188,966</b> | <b>189,865</b> |

#### 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%. The calculated cash flow has been calculated at present value at a discount rate of 9.3% before tax.

#### Sensitivity

The impairment testing performed does not indicate any need to take an impairment loss. Impairment testing generally has a margin such that any adverse changes in individual parameters reasonably possible would not cause the value in use to fall below the book value. However, the cash flow projections are uncertain and may also be influenced by factors not in control by the company. Even if the estimated growth rate applied after the forecasted 5-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 for tax applied for discounted cash flows had been 10.3% instead of the management estimate of 9.3%, there would be no need to recognise an impairment loss on goodwill.

#### 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 thousands) | 2010          | 2009          |
|-----------------|---------------|---------------|
| Sports & Health | 48,896        | 38,873        |
| Entertainment   | 5,138         | -             |
| <b>Total</b>    | <b>54,034</b> | <b>38,873</b> |

#### 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%. The calculated cash flow has been calculated at present value at a discount rate of 9.3% before tax.

#### Sensitivity

The impairment testing performed does not indicate any need to take an impairment loss. Impairment testing generally has a margin such that any adverse changes in individual parameters reasonably possible would not cause the value in use to fall below the book value. However, the cash flow projections are uncertain and may also be influenced by factors not in control by the company. Even if the estimated growth rate applied after the forecasted 5-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 for tax applied for discounted cash flows had been 10.3% instead of the management estimate of 9.3%, there would be no need to recognise an impairment loss on trademarks.

## Note 10 Property, plant, and equipment

#### Group

| Equipment                                    | 2010          | 2009          |
|--|---------------|---------------|
| <b>Opening accumulated cost</b>              | <b>5,856</b>  | <b>4,082</b>  |
| Investments                                  | 3,201         | 1,662         |
| Investments through business combinations    | 152           | -             |
| Reclassifications                            | -             | 125           |
| Divestments                                  | -23           | -             |
| Translation differences                      | -             | -13           |
| <b>Closing accumulated acquisition value</b> | <b>9,186</b>  | <b>5,856</b>  |
| <b>Opening accumulated depreciation</b>      | <b>-3,903</b> | <b>-2,703</b> |
| Year's depreciation                          | -1,581        | -1,006        |
| Depreciation through acquisition             | -61           | -             |
| Impairment for the year                      | -             | -106          |
| Reclassifications                            | -             | -96           |
| Divestments                                  | 19            | -             |
| Translation differences                      | -             | 8             |
| <b>Closing accumulated depreciation</b>      | <b>-5,526</b> | <b>-3,903</b> |
| <b>Carrying amount</b>                       | <b>3,660</b>  | <b>1,953</b>  |

Depreciation expenses of SEK 1,581 thousand (1,006) are included in sales & administrative expenses. Impairment expenses of SEK 0 thousand (106) are included in sales & administrative expenses.

## Note 11 Participations in Group companies

| Shares in subsidiaries (parent company) (SEK thousands) | Corporate identification number | Registered office | No. of shares | Share capital, % | Share of votes, % | Carrying amount |
|---|---------------------------------|-------------------|---------------|------------------|-------------------|-----------------|
| CDON AB   | 556406-1702                     | Stockholm         | 1,000         | 100.0            | 100.0             | 27,779          |
| 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             | 202,102         |
| NLY Scandinavia AB                                      | 556653-8822                     | Stockholm         | 164,424       | 95.5             | 95.5              | 35,829          |
| Lekmer AB   | 556698-8035                     | Stockholm         | 901           | 90.1             | 90.1              | 14,572          |
| <b>Total</b>  |                                 |                   |               |                  |                   | <b>280,282</b>  |

In April 2010, Gymgrossisten Nordic AB merged with the parent company, CDON Group AB.

Heppo AB was previously named MTG Publiken AB; the company changed its name during the fiscal year.

| Shares in subsidiaries (Group) | Corporate identification number | Registered office | No. of shares | Share capital, % | Share of votes, % |
|--------------------------------|---------------------------------|-------------------|---------------|------------------|-------------------|
| <b>CDON AB</b>                 | 556406-1702                     | Stockholm         | 1,000         | 100.0            | 100.0             |
| Helsingin Dataclub Oy          |                                 | Finland           | 40            | 100.0            | 100.0             |
| CDON Alandia Ab                |                                 | Finland           | 100           | 100.0            | 100.0             |
| CDON Alandia Ab                | 556078-3135                     | Stockholm         | 9,000         | 100.0            | 100.0             |
| <b>Gymgrossisten Sweden AB</b> | 556564-4258                     | Stockholm         | 1,000         | 100.0            | 100.0             |
| <b>NLY Scandinavia AB</b>      | 556653-8822                     | Stockholm         | 164,424       | 95.5             | 95.5              |
| <b>Heppo AB</b>                | 556533-8372                     | Stockholm         | 1,666         | 100.0            | 100.0             |
| <b>Lekmer AB</b>               | 556698-8035                     | Stockholm         | 901           | 90.1             | 90.1              |

| Shares and participating interests in subsidiaries, parent company (SEK thousands) | 2010           | 2009           |
|--|----------------|----------------|
| <b>Opening accumulated cost</b>  | <b>317,238</b> | <b>253,513</b> |
| Acquisitions   | 28,464         | 63,725         |
| Shareholder contribution   | 7,150          | -              |
| Group restructuring  | -56,751        | -              |
| <b>Closing balance, 31 December</b>  | <b>296,101</b> | <b>317,238</b> |
| <b>Opening accumulated depreciation</b>  | <b>-15,748</b> | <b>-</b>       |
| Depreciation during the year   | -71            | -15,748        |
| <b>Closing balance, 31 December</b>  | <b>-15,819</b> | <b>-15,748</b> |
| <b>Carrying amount, 31 December</b>  | <b>280,282</b> | <b>301,490</b> |

## Note 12 Operating costs distributed per type of cost

| (SEK thousands)           | 2010              | 2009              |
|---------------------------|-------------------|-------------------|
| Cost of goods sold        | -1,482,712        | -1,160,151        |
| Distribution costs        | -268,762          | -215,176          |
| Personnel expenses        | -136,391          | -97,767           |
| Depreciation/amortization | -6,892            | -6,142            |
| Other expenses            | -180,649          | -141,787          |
| <b>Total expenses</b>     | <b>-2,075,406</b> | <b>-1,621,023</b> |

## Note 13 Accounts receivable

### Group

#### Credit exposure

Accounts receivable are recognised taking into consideration credit losses incurred during the year of SEK 1,806 thousand (4,953) in the Group. The credit losses refer to losses on a number of smaller customers.

| SEK thousands                                    | 31 december 2010 | 31 december 2009 |
|--|------------------|------------------|
| Accounts receivable not overdue or written down  | 25,052           | 17,700           |
| Accounts receivable overdue but not written down | 3,871            | 1,739            |
| Accounts receivable written down                 | 2,567            | 2,991            |
| Provision for bad customer accounts              | -2,567           | -2,991           |
| <b>Total accounts receivable</b>                 | <b>28,923</b>    | <b>19,439</b>    |

The credit risk in accounts receivable that are not overdue or written down is deemed to not be large. No individual customer account is responsible for more than 6% of the 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 due without provisions for bad debt (SEK thousands) | 31 december 2010 | 31 december 2009 |
|---|------------------|------------------|
| <30 days  | 2,660            | 1,504            |
| 30-90 days  | 906              | 142              |
| > 90 days   | 305              | 93               |
| <b>Total</b>  | <b>3,871</b>     | <b>1,739</b>     |

| Receivables due with provisions for bad debt (SEK thousands) | 31 december 2010 | 31 december 2009 |
|--|------------------|------------------|
| > 90 days  | 2,567            | 2,991            |
| <b>Total</b>   | <b>2,567</b>     | <b>2,991</b>     |

| Provision for bad customer accounts (SEK thousands) | 31 december 2010 | 31 december 2009 |
|---|------------------|------------------|
| Opening balance, 1 January                          | 2,991            | 3,751            |
| Provision for potential losses                      | 1,376            | 4,590            |
| Actual losses                                       | -1,800           | -5,042           |
| Translation differences                             | -                | -308             |
| <b>Closing balance, 31 December</b>                 | <b>2,567</b>     | <b>2,991</b>     |

## Note 14 Prepaid expenses and accrued income

### Parent company

| (SEK thousands)            | 31 december 2010 | 31 december 2009 |
|----------------------------|------------------|------------------|
| Prepaid insurance expenses | 706              | -                |
| Prepaid rent               | 12               | -                |
| Other                      | 307              | -                |
| <b>Total</b>               | <b>1,025</b>     | <b>-</b>         |

## Note 15 Earnings per share

### Group

| (SEK thousands)    | Before dilution |        | After dilution |        |
|--------------------|-----------------|--------|----------------|--------|
|                    | 2010            | 2009   | 2010           | 2009   |
| Earnings per share | 5.00            | 159.09 | 4.90           | 159.09 |

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

|  | 2010        | 2009          |
|--|-------------|---------------|
| Basic earnings per share   |             |               |
| Profit/loss for the year attributable to parent company shareholders (SEK thousands) | 90,835      | 79,554        |
| Average number of shares   | 18,153,748  | 500,000       |
| <b>Basic earnings per share, SEK</b>   | <b>5.00</b> | <b>159.09</b> |

The parent company has one class of potential equity share, a convertible bond. For detailed information, see Note 27.

|  | 2010          | 2009          |
|--|---------------|---------------|
| Diluted earnings per share   |               |               |
| Profit/loss for the year attributable to parent company equity holders (SEK thousands) | 90,835        | 79,554        |
| Interest effect on convertible bonds after tax (SEK thousands)                         | 828           | -             |
| <b>Diluted earnings attributable to parent company equity holders</b>                  | <b>91,663</b> | <b>79,554</b> |
| Average number of shares   | 18,694,484    | 500,000       |
| <b>Diluted earnings per share, SEK</b>   | <b>4.90</b>   | <b>159.09</b> |

Earnings per share for 2009 have been recalculated with due regard to a 250:1 split in September 2010. The number of shares for 2009 is 500,000. Earnings per share for 2010 have, in addition to taking into account the 250:1 share split, been recalculated to reflect two new share issues, in which the number of shares increased from 500,000 to 66,045,122 and 66,342,124 in September 2010 and October 2010 respectively. Weighted average number of shares after dilution for 2010 is 18,694,484.

|   | 2010              | 2009           |
|---|-------------------|----------------|
| Weighted average number of equity shares, after dilution                        |                   |                |
| Weighted average number of equity shares during the year, before dilution       | 18,153,748        | 500,000        |
| Effect of convertible bonds   | 540,735           | -              |
| <b>Weighted average number of equity shares during the year, after dilution</b> | <b>18,694,484</b> | <b>500,000</b> |

## Note 16 Equity

At 31 December 2010, share capital comprised 66,342,124 shares (2,000). Each share has a quotient value of SEK 2.

| Issued shares (SEK thousands)  | No. of shares     | Quotient value |
|--|-------------------|----------------|
| Shares issued  | 66,342,124        | 132,684        |
| <b>Total number of shares issued/total quotient value as of 31 December 2010</b> | <b>66,342,124</b> | <b>132,684</b> |

### Change in number of shares/share capital

| Date  | Event         | Change in share capital (SEK) | Change in no. of shares | Share capital after change (SEK) | No. of shares after change |
|---|---------------|-------------------------------|-------------------------|----------------------------------|----------------------------|
| 1936-12-11  | Establishment | 1,000,000                     | 2,000                   | 1,000,000                        | 2,000                      |
| 2010-09-24  | Split         | -                             | 498,000                 | 1,000,000                        | 500,000                    |
| 2010-09-24  | Offset issue  | 131,090,244                   | 65,545,122              | 132,090,244                      | 66 045 122                 |
| 2010-10-26  | Cash issue    | 595,004                       | 297,002                 | 132,684,248                      | 66 342 124                 |
| <b>No. of issued shares/share capital at 31 December 2010</b> |               |                               | <b>66,342,124</b>       | <b>132,684,248</b>               |                            |

The offset issue was implemented by offsetting previously issued loans from the Modern Times Group MTG AB for a value corresponding to SEK 239,000,000. The 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 quotient value.

### Foreign currency translation reserve

The translation reserve includes all exchange-rate differences that arise from the translation of the financial statements of foreign operations into Swedish kronor in the consolidated accounts.

| Group (SEK thousands)                                  | 2010        | 2009         |
|--|-------------|--------------|
| Opening balance, 1 January                             | 2,411       | 4,070        |
| Translation differences during the year, net after tax | -3,250      | -1,659       |
| <b>Total accumulated translation differences</b>       | <b>-838</b> | <b>2,411</b> |

#### Retained earnings

Retained earnings include previously earned profit.

#### Proposed dividend

The Board of Directors will propose to the 2011 Annual General Meeting of shareholders that no dividend be paid to shareholders for the fiscal year ending 31 December 2010, and that retained earnings be carried forward into the 2011 accounts.

## Note 17 Other provisions

#### Group

| Other provisions (SEK thousands)   | 2010         | 2009         |
|--|--------------|--------------|
| Provisions for social security contributions based on share-based payments | -            | 1,217        |
| Provisions for contingent consideration agreements                         | 2,397        | -            |
| <b>Total</b>   | <b>2,397</b> | <b>1,217</b> |

| Provisions for share-based payments (SEK thousands) | 2010         | 2009         |
|---|--------------|--------------|
| <b>Carrying amount at year's start</b>              | <b>1,217</b> | <b>1,020</b> |
| Provisions allocated during the period              | -            | 197          |
| Unutilized amount reversed during the period        | -1,217       | -            |
| <b>Carrying amount at year end</b>                  | <b>-</b>     | <b>1,217</b> |

Provisions in 2009 comprised social security contributions for share-based payments. Provisions have been dissolved as the programme for share-based payments was concluded when the company was listed. No payments have been made, instead the dissolution has been recognised in the consolidated income statement.

| Provisions for contingent consideration agreements (SEK thousands) | 2010         | 2009     |
|--|--------------|----------|
| <b>Carrying amount at year's start</b>                             | <b>-</b>     | <b>-</b> |
| Provisions allocated during the period                             | 2,397        | -        |
| <b>Carrying amount at year end</b>                                 | <b>2,397</b> | <b>-</b> |

Provisions include contingent consideration agreements from the acquisition of Lekmer AB. The valuation of the contingent consideration is based on defined profit objectives for 2011 and 2012 for Lekmer AB and the probability of their fulfilment.

| Total provisions for the Group (SEK thousands)    | 2010         | 2009         |
|---|--------------|--------------|
| <b>Total carrying amount at year's start</b>      | <b>1,217</b> | <b>1,020</b> |
| Provisions allocated during the period            | 2,397        | 197          |
| Unutilized amount reversed during the period      | -1,217       | -            |
| <b>Total carrying amount at year end</b>          | <b>2,397</b> | <b>1,217</b> |
| <b>Of which non-current portion of provisions</b> | <b>1,271</b> | <b>1,217</b> |
| <b>Of which current portion of provisions</b>     | <b>1,126</b> | <b>-</b>     |

| Payments   | 2010  | 2009  |
|--|-------|-------|
| Amount for which provisions are expected to be payable after 12 months | 1,271 | 1,217 |

#### Parent company

| Other provisions (SEK thousands)                   | 2010         | 2009     |
|--|--------------|----------|
| Provisions for contingent consideration agreements | 2,660        | -        |
| <b>Total</b>                                       | <b>2,660</b> | <b>-</b> |

| Provisions for contingent consideration agreements (SEK thousands) | 2010         | 2009 |
|--|--------------|------|
| <b>Carrying amount at year's start</b>                             | -            | -    |
| Provisions allocated during the period                             | 2,660        | -    |
| <b>Carrying amount at year end</b>                                 | <b>2,660</b> | -    |
| <b>Of which non-current portion of provisions</b>                  | <b>1,330</b> | -    |
| <b>Of which current portion of provisions</b>                      | <b>1,330</b> | -    |

Provisions consist of contingent considerations from the acquisition of Lekmer AB.

## Note 18 Accrued expenses and prepaid income

| Parent company (SEK thousands) | 31 december 2010 | 31 december 2009 |
|--------------------------------|------------------|------------------|
| Accrued personnel expense      | 3,844            | -                |
| Accrued audit expense          | 400              | 25               |
| Accrued listing expense        | 10,515           | -                |
| Accrued interest expense       | 554              | -                |
| Other                          | 1,670            | -                |
| <b>Total</b>                   | <b>16,983</b>    | <b>25</b>        |

## Note 19 Pledged assets and contingent liabilities

### Group

| Contingent liabilities (SEK thousands) | 31 december 2010 | 31 december 2009 |
|--|------------------|------------------|
| Guarantees for external parties        | 39,361           | -                |
| <b>Total</b>                           | <b>39,361</b>    | -                |

The item refers to parent company guarantees and bank securities given to suppliers and other external parties on behalf of Group subsidiaries.

### Parent company

| Contingent liabilities (SEK thousands) | 31 december 2010 | 31 december 2009 |
|--|------------------|------------------|
| Guarantees for external parties        | -                | -                |
| Guarantees for subsidiaries            | 5,150            | -                |
| <b>Total</b>                           | <b>5,150</b>     | -                |

The item refers to parent company guarantees given to suppliers on behalf of Group subsidiaries.

## Note 20 Financial instruments and financial risk management

### Capital management

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

Capital is defined as total equity.

| Capital (SEK thousands) | 31 december 2010 | 31 december 2009 |
|-------------------------|------------------|------------------|
| Total equity            | 346,544          | 8,211            |

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

### Liquidity risk

Liquidity risk is the risk that the Group will not be able to fulfil its obligations associated with financial liabilities. This risk is centrally managed by the parent company, which ensures that there is always sufficient cash and cash equivalents and the ability to extend the available financing. Access to cash and cash equivalents for the subsidiary is ensured partly through the use of cash pools. Through the issue of a SEK 250 million convertible, the Group has good access to cash and cash equivalents; at 31 December 2010, the Group's liquidity stood at SEK 431 million (3). The Group does not currently have any available unutilised credit facilities.

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

### Market risk – interest rate risk

The interest rate risk is the risk that the value of a financial instrument may vary due to changes in market interest rates. The Group's interest rate risk almost exclusively consists of long-term loans in the form of a nominal SEK 250 million convertible loan. However, the fixed interest rate of 2.85% on the convertible limits the Company's interest rate risk. For the terms of the convertible loan, see Note 27.

### 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. The Group has a credit policy detailing how customer credit will be managed.

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

### Insurable risks

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

### Market risks – exchange risk

Foreign exchange risk is the risk that fluctuations in exchange rates will adversely affect the 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.

The entities' net foreign cash flow was distributed among the currencies as follows:

| Flow of foreign funds (SEK thousands) | 2010    | 2009     |
|---------------------------------------|---------|----------|
| DKK                                   | 114,057 | 102,253  |
| NOK                                   | 341,988 | 260,579  |
| EUR                                   | -99,628 | -108,826 |
| USD                                   | -68,915 | -14,290  |
| GBP                                   | -94,155 | -        |

A five per cent currency exchange rate movement for each currency would affect earnings before tax by the following amounts:

| Sensitivity analysis (SEK thousands) | 2010       | 2009       |
|--------------------------------------|------------|------------|
| DKK                                  | +/- 5 703  | +/- 5 113  |
| NOK                                  | +/- 17 099 | +/- 13 029 |
| EUR                                  | +/- 4 981  | +/- 5 441  |
| USD                                  | +/- 3 446  | +/- 715    |
| GBP                                  | +/- 4 708  | -          |

#### 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:

| Currency     | 2010            |            | 2009            |            |
|--------------|-----------------|------------|-----------------|------------|
|              | (SEK thousands) | %          | (SEK thousands) | %          |
| NOK          | -               | -          | -935            | -7         |
| EUR          | 24,914          | 100        | 15,246          | 107        |
| <b>Total</b> | <b>24,914</b>   | <b>100</b> | <b>14,311</b>   | <b>100</b> |

A five per cent currency exchange movement for EUR/SEK would affect equity by about SEK 0.3 million (1).



Other financial assets are recognised in the statement of financial position as cash and cash equivalents, interest-bearing long-term receivables, accounts receivables, and receivables in MTG companies. Financial liabilities are recognised as liabilities to suppliers, current interest-bearing liabilities, and long-term interest-bearing liabilities. The company deems that the book values and the fair values are equal for these items.

#### Classification of financial instruments

| Group (SEK thousands)  | 2010           | 2009           |
|--|----------------|----------------|
| <b>Assets</b>  |                |                |
| <b>Loans receivable and accounts receivable</b>              |                |                |
| Accounts receivable  | 28,923         | 19,439         |
| Current interest-bearing receivables, MTG cash pool accounts | -              | 270,027        |
| Other receivables  | 35,824         | 30,308         |
| Cash and cash equivalents                                    | 431,343        | 3,045          |
| <b>Total loans receivable and accounts receivable</b>        | <b>496,090</b> | <b>322,819</b> |
| <b>Total assets</b>  | <b>496,090</b> | <b>322,819</b> |
| <b>Liabilities</b>   |                |                |
| <b>Other liabilities</b>                                     |                |                |
| Interest-bearing liabilities, MTG cash pool accounts         | -              | 258,380        |
| Accounts payable   | 240,133        | 202,127        |
| Convertible bonds  | 207,204        | -              |
| Other liabilities  | 39,852         | 158,780        |
| Accrued expenses and prepaid income                          | 124,899        | 95,107         |
| <b>Total other liabilities</b>                               | <b>612,088</b> | <b>714,394</b> |
| <b>Total liabilities</b>                                     | <b>612,088</b> | <b>714,394</b> |

| Parent company (SEK thousands)                               | 2010           | 2009           |
|--|----------------|----------------|
| <b>Assets</b>  |                |                |
| <b>Loans receivable and accounts receivable</b>              |                |                |
| Accounts receivable  | 154            | -              |
| Current interest-bearing receivables, MTG cash pool accounts | -              | 142            |
| Receivables from subsidiaries                                | 165,766        | 130,660        |
| Other receivables  | 269            | 927            |
| Cash and cash equivalents                                    | 407,444        | -              |
| <b>Total loans receivable and accounts receivable</b>        | <b>573,633</b> | <b>131,729</b> |
| <b>Total assets</b>  | <b>573,633</b> | <b>131,729</b> |
| <b>Liabilities</b>   |                |                |
| <b>Other liabilities</b>                                     |                |                |
| Interest-bearing liabilities, MTG cash pool accounts         | -              | 230,049        |
| Accounts payable   | 612            | -              |
| Convertible bonds  | 207,204        | -              |
| Other liabilities  | 2,689          | -              |
| Liabilities to Group companies                               | 241,311        | 186,905        |
| Accrued expenses and prepaid income                          | 16,983         | 25             |
| <b>Total other liabilities</b>                               | <b>468,799</b> | <b>416,979</b> |
| <b>Total liabilities</b>                                     | <b>468,799</b> | <b>416,979</b> |

#### 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 book value reflects the 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 governmental loan rate (Stibor) as of 31 December 2010, plus a relevant interest spread when discounting financial instruments. The applicable interest rates follow.

| Group and parent company | 2010  | 2009 |
|--------------------------|-------|------|
| Convertible bonds        | 6.99% | -    |

#### Maturity structure financial liabilities – undiscounted cash flows

| Group (SEK thousands)                   | Total          | 0-3 mo         | 3 mo - 1 yr   | 1-5 yr         | > 5 yr   |
|---|----------------|----------------|---------------|----------------|----------|
| Convertible bonds                       | 285,071        | 1,781          | 5,344         | 277,946        |          |
| Accounts receivable                     | 240,133        | 240,133        |               |                |          |
| Other liabilities                       | 35,432         | 35,432         |               |                |          |
| Accrued liabilities and deferred income | 124,899        | 114,578        | 10,321        |                |          |
| <b>Total</b>                            | <b>685,535</b> | <b>391,924</b> | <b>15,665</b> | <b>277,946</b> | <b>0</b> |

| Parent company (SEK thousands)          | Total          | 0-3 mo         | 3 mo - 1 yr  | 1-5 yr         | > 5 yr   |
|---|----------------|----------------|--------------|----------------|----------|
| Convertible bonds                       | 285,071        | 1,781          | 5,344        | 277,946        |          |
| Accounts receivable                     | 612            | 612            |              |                |          |
| Liabilities to subsidiaries             | 241,311        | 241,311        |              |                |          |
| Other liabilities                       | 2,689          | 2,689          |              |                |          |
| Accrued liabilities and deferred income | 16,983         | 15,139         | 1,844        |                |          |
| <b>Total</b>                            | <b>546,666</b> | <b>261,532</b> | <b>7,188</b> | <b>277,946</b> | <b>0</b> |

## Note 21 Operating leases

#### Group

The Group mainly rents a number of warehouses, office locations, and office equipment through operational leases.

#### Leases and other commitments for future payments at 31 December 2010

| Group (SEK thousands)                     | Future payments on non-voidable contracts |
|---|---|
| 2011                                      | 8,803                                     |
| 2012                                      | 6,781                                     |
| 2013                                      | 6,830                                     |
| 2014                                      | 6,705                                     |
| 2015                                      | 6,803                                     |
| 2016 and beyond                           | 5,882                                     |
| <b>Total leases and other commitments</b> | <b>41,804</b>                             |
| <b>Leasing expense for the year</b>       | <b>9,431</b>                              |

#### Leases and other commitments for future payments at 31 December 2009

| Group (SEK thousands)                     | Future payments on non-voidable contracts |
|---|---|
| 2010                                      | 2,852                                     |
| 2011                                      | 1,550                                     |
| 2012                                      | -   |
| 2013                                      | -   |
| 2014                                      | -   |
| 2015 and beyond                           | -   |
| <b>Total leases and other commitments</b> | <b>4,402</b>                              |
| <b>Expenses for the year</b>              | <b>2,852</b>                              |

#### Parent company

The parent company mainly rents office premises through operational leases.

#### Leases and other commitments for future payments at 31 December 2010

| Parent company (SEK thousands)            | Future payments on non-voidable contracts |
|---|---|
| 2011                                      | 399                                       |
| 2012                                      | -   |
| 2013                                      | -   |
| 2014                                      | -   |
| 2015                                      | -   |
| 2016 and beyond                           | -   |
| <b>Total leases and other commitments</b> | <b>399</b>                                |
| <b>Leasing expense for the year</b>       | <b>48</b>                                 |

The parent company had no operational leases in 2009.

### Note 22 Average number of employees

| Group                                 | 2010       |            | 2009       |            |
|---------------------------------------|------------|------------|------------|------------|
|                                       | Men        | Women      | Men        | Women      |
| Sweden                                | 148        | 129        | 100        | 93         |
| Finland                               | -          | -          | 6          | 4          |
| <b>Total</b>                          | <b>148</b> | <b>129</b> | <b>106</b> | <b>97</b>  |
| <b>Total average No. of employees</b> |            | <b>277</b> |            | <b>203</b> |

| Parent company                        | 2010     |          | 2009     |          |
|---------------------------------------|----------|----------|----------|----------|
|                                       | Men      | Women    | Men      | Women    |
| Sweden                                | 2        | 2        | -        | -        |
| <b>Total</b>                          | <b>2</b> | <b>2</b> | <b>-</b> | <b>-</b> |
| <b>Total average No. of employees</b> |          | <b>4</b> |          | <b>-</b> |

The parent company had no employees before 1 September 2010.

#### Distribution of men and women in executive management

| Group                    | Men %     | Women %  |
|--------------------------|-----------|----------|
| Board of directors       | 94        | 6        |
| CEO and other executives | 86        | 14       |
| <b>Total</b>             | <b>93</b> | <b>7</b> |

| Parent company           | Men %     | Women %   |
|--------------------------|-----------|-----------|
| Board of directors       | 75        | 25        |
| CEO and other executives | 86        | 14        |
| <b>Total</b>             | <b>80</b> | <b>20</b> |

## Note 23 Salaries, other remuneration, and social security contributions

### Remuneration to senior executives

Guidelines for remuneration of senior executives, "Executives", were established at the extra general meeting on 24 September 2010 as follows:

#### Remuneration guidelines

The objective of the guidelines is to ensure that the CDON Group can attract, motivate, and retain senior executives within the context of the CDON Group's peer group, which consists of Nordic online and offline retailing companies. The remuneration shall be based on conditions that are market competitive and at the same time aligned with shareholders' interests. Remuneration to Executives shall consist of a fixed and variable salary, as well as the possibility of participation in a long-term incentive programme 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 50 per cent 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.

#### 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 these guidelines, for example, additional variable remuneration for exceptional performance. In such cases the Board of Directors is obliged to explain the reason for the deviation at the following Annual General Meeting.

#### Group

|   | 2010           | 2009          |
|---|----------------|---------------|
| <b>Personnel expenses</b>                             |                |               |
| Salaries  | 94,799         | 66,453        |
| Social security contributions                         | 39,842         | 17,210        |
| Pension expenses – defined contribution plans         | 5,020          | 4,118         |
| Expenses for share-based payments                     | -              | 509           |
| Social security contributions on share-based payments | -              | 197           |
| <b>Total</b>  | <b>139,661</b> | <b>88,487</b> |

|                                  | 2010         | 2009       |
|----------------------------------|--------------|------------|
| Senior executives                | 7,639        | 4,586      |
| <i>of which, variable salary</i> | <i>1,845</i> | <i>563</i> |

#### Remuneration and other benefits 2010

| (SEK thousands)                         | Base salary  | Variable salary | Other benefits | Pension expenses | Option expenses | Total        |
|---|--------------|-----------------|----------------|------------------|-----------------|--------------|
| Mikael Olander, Chief Executive Officer | 2,166        | 1,050           |                | 282              |                 | 3,498        |
| Senior executives (6 persons)           | 3,628        | 795             |                | 499              |                 | 4,922        |
| <b>Total</b>                            | <b>5,794</b> | <b>1,845</b>    | <b>-</b>       | <b>781</b>       | <b>-</b>        | <b>8,420</b> |

The figures reported for 2010 relate to the full year. Accrued variable salary to be paid after year end to the CEO of SEK 262 thousand (225).

## Remuneration and other benefits 2009

| (SEK thousands)                         | Base salary  | Variable salary | Other benefits | Pension expenses | Option expenses | Total        |
|---|--------------|-----------------|----------------|------------------|-----------------|--------------|
| Mikael Olander, Chief Executive Officer | 2,140        | 675             | -              | 302              | 662             | 3,779        |
| Senior executives (2 persons)           | 1,449        | 322             | -              | 187              | 44              | 2,002        |
| <b>Total</b>                            | <b>3,589</b> | <b>997</b>      | <b>-</b>       | <b>489</b>       | <b>706</b>      | <b>5,781</b> |

The amounts disclosed for 2009 relate to the full year. Incurred variable salary remuneration to be paid after the year end for the CEO of SEK 225 (112) thousand.

### Parent company

| (SEK thousands)                               | 2010         | 2009     |
|---|--------------|----------|
| <b>Personnel expenses</b>                     |              |          |
| Salaries                                      | 5,044        | -        |
| Social security contributions                 | 1,647        | -        |
| Pension expenses – defined contribution plans | 345          | -        |
| <b>Total social security contributions</b>    | <b>1,992</b> | <b>-</b> |
| <b>Total</b>                                  | <b>7,036</b> | <b>-</b> |

| Salary expense and other remuneration (SEK thousands) | 2010         | 2009     |
|---|--------------|----------|
| Board and senior executives                           | 3,081        | -        |
| <i>of which, variable salary</i>                      | <i>1,090</i> | <i>-</i> |
| Other employees                                       | 1,963        | -        |
| <b>Total salary and other remuneration</b>            | <b>5,044</b> | <b>-</b> |

## Remuneration and other benefits 2010

| (SEK thousands)                             | Base salary, board remuneration | Variable salary | Other benefits | Pension expenses | Option expenses | Total         |
|---|---------------------------------|-----------------|----------------|------------------|-----------------|---------------|
| Hans Holger Albrecht, Chairman of the Board | 625                             |                 |                |                  |                 | 625           |
| Mia Livfors Brunell                         | 350                             |                 |                |                  |                 | 350           |
| Lars Nilsson                                | 450                             |                 |                |                  |                 | 450           |
| Henrik Persson                              | 300                             |                 |                |                  |                 | 300           |
| Mengmeng Du                                 | 300                             |                 |                |                  |                 | 300           |
| Florian Seubert                             | 375                             |                 |                |                  |                 | 375           |
| Lars-Johan Jarnheimer                       | 325                             |                 |                |                  |                 | 325           |
| Anders Nilsson                              | 375                             |                 |                |                  |                 | 375           |
| Mikael Olander, Chief Executive Officer     |                                 |                 |                |                  |                 |               |
| Remuneration from parent company            | 666                             | 788             |                | 116              |                 | 1,569         |
| Remuneration from subsidiaries              | 1,501                           | 262             |                | 166              |                 | 1,929         |
| Other senior executives (6 persons)         |                                 |                 |                |                  |                 |               |
| Remuneration from parent company            | 551                             | 303             |                | 126              |                 | 980           |
| Remuneration from subsidiaries              | 3,077                           | 492             |                | 373              |                 | 3,942         |
| <b>Total</b>                                | <b>8,895</b>                    | <b>1,845</b>    | <b>-</b>       | <b>781</b>       | <b>-</b>        | <b>11,520</b> |

The figures reported for 2010 relate to the full year. Accrued variable salary to be paid after year end totals SEK 262 thousand (225) for the CEO. The Board will receive its full remuneration from the parent company. No portion of board remuneration was paid out as of the closing date.

The period of notice for CEO resignation is 12 months; the CEO has no right to severance pay.

The Chief Financial Officer for the Group was salaried by its former parent company Modern Times Group MTG through November 2010. This expense was invoiced to the CDON Group.

The parent company had no employees in 2009, and no board remuneration was paid.

### Sharebased payments

The Group previously had a programme for shareholder payment, but this concluded in conjunction with the Group's exchange listing. At programme conclusion, the previous provisions for social security contributions attributable to the programme were reversed. See more information in Note 17.

For more information on the concluded programme, see the 2009 annual report.

## Note 24 Fees and remuneration to auditors

| Group (SEK thousands) | 2010         | 2009       |
|-----------------------|--------------|------------|
| <b>KPMG</b>           |              |            |
| Auditing assignments  | 1,383        | 784        |
| Tax consultancy       | 81           | -          |
| Other services        | 625          | -          |
| <b>Total</b>          | <b>2,089</b> | <b>784</b> |

| Parent company (SEK thousands) | 2010         | 2009      |
|--------------------------------|--------------|-----------|
| <b>KPMG</b>                    |              |           |
| Auditing assignments           | 605          | 25        |
| Other services                 | 612          | -         |
| <b>Total</b>                   | <b>1,217</b> | <b>25</b> |

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

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

## Note 25 Additional information regarding the statement of cash flow

### Group

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

| (SEK thousands)   | 2010           | 2009          |
|---|----------------|---------------|
| Gain from sale of non-current assets  | -15            | -2,148        |
| Depreciation, amortisation, impairment, and disposals of non-current assets | 6,900          | 6,142         |
| Changes in provisions for contingent consideration agreements               | -586           | -             |
| Warrants  | -1,217         | 706           |
| Interest expenses and income  | 569            | 5,477         |
| Unrealised translation differences  | 6,712          | 4,195         |
| <b>Total</b>  | <b>12,363</b>  | <b>14,372</b> |
| <b>Other additional information</b>   |                |               |
| Interest received during the fiscal year                                    | 969            | 1,432         |
| Interest paid during the fiscal year  | -11,154        | -8,388        |
| <b>Total</b>  | <b>-10,185</b> | <b>-6,956</b> |

### Parent company

Other additional information

| (SEK thousands)                          | 2010          | 2009          |
|--|---------------|---------------|
| Interest received during the fiscal year | 455           | 974           |
| Interest paid during the fiscal year     | -7,581        | -5,156        |
| <b>Total</b>                             | <b>-7,126</b> | <b>-4,182</b> |

## Note 26 Related-party transactions

### Group

| Related parties                   |   |
|-----------------------------------|---|
| Investment AB Kinnevik (Kinnevik) | Kinnevik holds shares in CDON Group AB. |

### Related parties 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 Transcom. |

All transactions between related parties are based on market-based conditions and negotiations have been completed on arms'-length basis.

#### Transactions with related parties

The Group purchases marketing services from Kinnevik. In 2010, total purchases amounted to SEK 1.1 million (0).

#### Transactions with related parties to Kinnevik

The Group purchases credit management services from Transcom.

The Group purchases telecom and data communication services from Tele2 and operations and maintenance through its subsidiary Datamatrix.

The Group purchases advertising from Metro.

The Group purchases advertising and management services from MTG companies. The Group sells management services and goods to MTG companies.

There have been no transactions with senior executives in addition to those reported in Note 23.

#### Parent company

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

| Summary of transactions with related parties | Year | Sale of goods/services to related parties | Purchase of goods/services from related parties | Other (e.g. interest, dividend) | Receivables from related parties at 31 December | Liabilities to related parties at 31 December |
|--|------|---|---|---------------------------------|---|---|
| Subsidiaries                                 | 2010 | -   | -   | 110,385                         | 165,766   | 241,311                                       |
| Subsidiaries                                 | 2009 | -   | -   | 130,655                         | 130,660   | 60,505  |

## 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 thousands)  | 2010           | 2009     |
|---|----------------|----------|
| Nominal value after convertible bond issue, 2 December 2010   | 250,000        | -        |
| Original amount classified as equity  | -31,960        | -        |
| Deferred tax liability attributable to convertible bond   | -11,405        | -        |
| Capitalised interest  | 569            | -        |
| <b>Recognised liabilities, 31 December 2010</b>   | <b>207,204</b> | <b>-</b> |
| <b>Net financial items</b>  |                |          |
| Capitalised interest  | -569           | -        |
| Coupon rate   | -554           | -        |
| <b>Effect of the convertible bond on net financial items in the consolidated and parent company income statements</b> | <b>-1,123</b>  | <b>-</b> |

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 the end of 1 December 2015, which would represent a 9.0% dilution effect based on the number of shares outstanding as at 31 December 2010.

## Note 28 Reclassification in income statements

| Condensed consolidated income statement (SEK thousands) | Jan-dec 2009             |                   |                         |
|---|--------------------------|-------------------|-------------------------|
|   | Before reclassifications | Reclassifications | After reclassifications |
| Revenue   | 1,746,162                |                   | 1,746,162               |
| Cost of goods sold                                      | -1,476,858               | 79,167            | -1,397,691              |
| <b>Gross profit/loss</b>                                | <b>269,304</b>           | <b>79,167</b>     | <b>348,471</b>          |
| Sales & administrative expenses                         | -144,971                 | -79,095           | -224,066                |
| Other operating income and expenses, net                | 806                      | -72               | 734                     |
| <b>Operating profit/loss</b>                            | <b>125,139</b>           | <b>-</b>          | <b>125,139</b>          |

Reclassifications have been made for marketing costs and some internal warehousing costs. As such, cost of goods sold includes costs for products, distribution, warehousing, shipping, and payment transactions, as well as realised and anticipated bad debt losses. The changes were implemented at 1 January 2010 and data from 2009 has been adjusted to facilitate comparison.

## Note 29 Events after the end of the financial year

### Acquisition of Rum21 AB

CDON Group acquired 90.1% of RUM21 AB, a family-owned online retailer of designer brand furniture and interior design products on 31 January 2011. The company, less cash and liabilities, was acquired for a purchase price of 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 expands the Group's online portfolio and provides the Group with access to an industry segment that is well suited for e-commerce and has considerable growth potential. Company earnings are consolidated within the Group from 1 February 2011. Its sales in 2010 amounted to SEK 11 million and it had four employees at year-end.

A preliminary acquisition analysis for the purchase of Rum21 is shown below.

| Acquired net assets (SEK thousands):             | Carrying amount |
|--|-----------------|
| Property, plant, and equipment                   | 21              |
| Intangible non-current assets                    | 7,243           |
| Inventory  | 1,914           |
| Accounts receivable and other receivables        | 811             |
| Cash and cash equivalents                        | 1,360           |
| Deferred tax liability                           | -1,905          |
| Accounts payable and other operating liabilities | -2,249          |
| <b>Net identifiable assets and liabilities</b>   | <b>7,195</b>    |
| Non-controlling interest                         | -1,535          |
| Goodwill on acquisition                          | 8,314           |
| <b>Purchase price</b>                            | <b>13,974</b>   |
| Deferred purchase price                          | -5,000          |
| Provisions for additional purchase consideration | -2,311          |
| Cash and cash equivalents in acquired companies  | -1,360          |
| <b>Net cash flow</b>                             | <b>5,303</b>    |

### Convertible conversion rate

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 the end of 1 December 2015, which would represent a 9.0% dilution effect based on the number of shares outstanding as at 31 December 2010.

### Continued focus on Germany for Nelly.com

Nelly.com was launched as a test in Germany in May 2010, which marked the first expansion of CDON Group outside the Nordic region. The internet store's initial marketing campaign comprised affiliate programmes, online social media, and TV advertising campaigns. The test launch showed a healthy demand for Nelly.com products in the German marketplace; so a decision was made in March 2011 to follow the test launch with the permanent establishment of Nelly.com in Germany. Nelly.com's German launch is expected to generate loss for 2011 and 2012.

## Note 30 Inventories

During the year, inventory has been impaired by SEK 8,361 thousand, which is considered to be within the boundaries for normal obsolescence.



## 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 20 April 2011**

**Hans-Holger Albrecht**  
Chairman of the Board

**Mikael Olander**  
Chief Executive Officer

**Mia Brunell Livfors**  
Board member

**Lars-Johan Jarnheimer**  
Board member

**Anders Nilsson**  
Board member

**Lars Nilsson**  
Board member

**Mengmeng Du**  
Board member

**Henrik Persson**  
Board member

**Florian Seubert**  
Board member

Our audit report was submitted on 20 April 2011

**KPMG AB**

**George Pettersson**  
Authorised Public Accountant

The annual accounts and consolidated accounts have, as stated above, been approved for publication by the board on 20 April 2011.

## Audit Report – translation

To the annual meeting of the shareholders of CDON Group AB  
Corporate identity number 556035-6940

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the managing director of CDON Group AB for the year 2010. The annual accounts and the consolidated accounts of the company are included in the printed version of this document on pages 7-87. The board of directors and the managing director are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by board of directors and the managing director and significant estimates made by the board of directors and the managing director when preparing the annual accounts and the consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the managing director. We also examined whether board member 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 our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the group's financial position and results of operations. 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 the consolidated accounts.

We recommend to the annual meeting of shareholders that the income statement and balance sheet of the parent company and the income statement and the statement of financial position of the group be adopted, that the profit of the parent company be dealt with in accordance with the proposal in the statutory administration report and that the board of directors and the managing director be discharged from liability for the financial year.

Stockholm 20 April 2011

**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.

