ANNUAL REPORT 2011

ORIFLAME
SWEDEN

QUICK GUIDE

COMPANY OVERVIEW

Oriflame

An attractive beauty offer along with an easily accessible business opportunity and an organisation of passionate people, create the foundation for successfully fulfilling dreams.

Business model

Through its unique business concept – Make Money Today and Fulfil Your Dreams Tomorrow™, Oriflame offers a leading business opportunity for people who want to start making money the same day they join and work towards fulfilling their personal dreams and ambitions.

A sales force of approximately 3.6 million independent Oriflame Consultants has seized this opportunity and is successfully marketing Oriflame's wide portfolio of beauty products, together creating annual sales of around €1.5 billion.

History in brief

Oriflame was founded in Sweden in 1967 by the brothers Jonas and Robert af Jochnick and Bengt Hellsten. They wanted to give people the opportunity to benefit from good skin care and attractive cosmetics, and they wanted their products to be inspired by the natural beauty that the world associates with Sweden. Rather than investing in a chain of shops, they decided to move the retail operations into the homes of Swedish consumers.

For 45 years, Oriflame has remained true to its original concept of beauty products inspired by Swedish nature and an entrepreneurial culture. Today, Oriflame is a steadily growing global beauty company, selling direct in four continents.

Product offering

Oriflame's product offering builds on more than four decades of skin care and cosmetics expertise – combining innovation and inspiration from nature. The Company provides a wide assortment of high-quality products for everyday use at affordable prices, following its main product offer principles:

- High purity ingredients and strict manufacturing standards
- Assured product performance at value for money
- High ethical standards and stringent environmental policies

Oriflame offers products within six categories; Skin Care, Colour Cosmetics, Fragrance, Personal & Hair Care, Accessories and Wellness.

Vision

To be the No 1 Beauty Company Selling Direct

Mission

To Fulfil Dreams

Market entries

1967	1968	1969	1970	1972	1978	1985	1986	1989	1990	1991	1992	1993
Sweden Denmark	Finland	Norway	UK	Netherlands	Spain	Portugal	Indonesia	Chile	Czechoslovakia	Poland Hungary Mexico	Russia Turkey Latvia	Ukraine Slovakia Greece

Strategic cornerstones

Oriflame's overall objective is to create profitable growth through an attractive beauty offering along with an easily accessible business opportunity for its Consultants. The wide geographical footprint, with operations in some of the highest potential growth markets in the world, and the very strong market positions in the more mature markets, constitute a solid ground for the Company to exploit further. Oriflame strives for optimised allocation of resources to reach sourcing and operational efficiency with a sustainable profile. The strategic initiatives are gathered under four cornerstones.

Brands & Products

Oriflame shall continuously develop and provide a broad range of distinct brands in different affordable price segments to meet varied demands and preferences within and between markets. The portfolio covers a wide range of beauty products in six product categories. To meet the consumer demands, the portfolio is continuously being developed with a high level of products renewed every year.

Network marketing

By continuously improving the consumer offering and earning opportunities, Oriflame will attract an increasing number of Consultants. In order to be the preferred brand, Oriflame shall offer the most attractive success plan and training opportunities. The key marketing tool is a frequently distributed catalogue, complemented by relevant online applications.

World class service

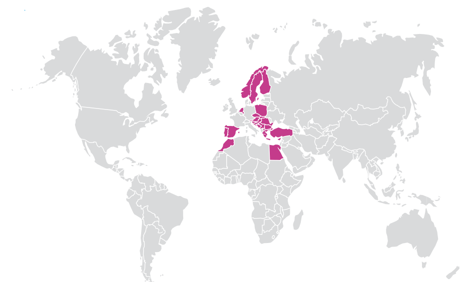
Oriflame strives to continuously cut lead times, raise service levels and build capacity closer to the customer to support growth, all with a sustainable perspective. Flexible and user-friendly systems support the work for Oriflame Consultants and employees and contribute to efficiency throughout the organisation.

People & culture

To retain employees and attract an ever-increasing sales force, Oriflame shall offer great motivation and potential for development. Oriflame's culture is based on entrepreneurship as well as respect for and belief in peoples' capability. Attracting and keeping talents as well as executing attractive recruitment campaigns towards Oriflame Consultants are crucial to the Company's future success.

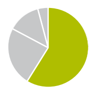
1994	1995	1996	1997	1998	2000	2001	2002	2003	2005	2006	2008	2011
Bulgaria	Peru Lithuania Romania	Macedonia Ecuador Croatia India	Estonia Morocco Egypt Slovenia Sri Lanka	Azerbaijan Colombia Bosnia	Kazakhstan Thailand Georgia	Serbia & Montenegro	Mongolia	Armenia Moldova Vietnam	Belarus	China Iran	Pakistan Kyrgyzstan	Algeria

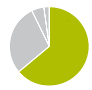
MARKETS

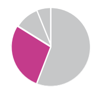


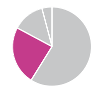
	CIS & BALTICS	EMEA

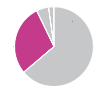

Sales


Sales force

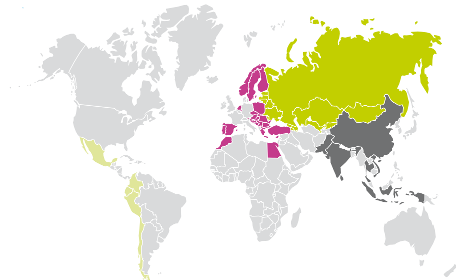

Adj. Operating profit

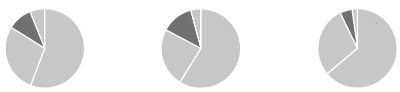
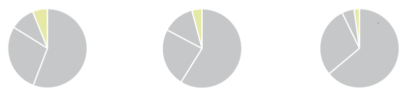
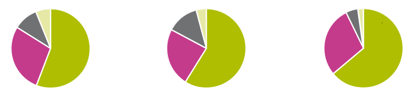

Sales


Sales force


Adj. Operating profit

	CIS & BALTICS	EMEA
COUNTRIES	Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Mongolia, Russia, Ukraine, Uzbekistan	Algeria, Bosnia, Bulgaria, Croatia, Czech Republic, Egypt, Finland, Greece, Hungary, Morocco, Macedonia, Montenegro, Netherlands, Norway, Poland, Portugal, Romania, Serbia, Slovakia, Slovenia, Spain, Sweden, Turkey
2011 DEVELOPMENT IN BRIEF	• Local currency sales increased by 1% • Average sales force was unchanged at 2.1 million Oriflame Consultants • Sales growth particularly strong in Georgia, Kyrgyzstan and Mongolia • Sales in the region's largest market Russia decreased by 5% in local currency Overall development impacted by tough market conditions and intense competition. An unsuccessful recruitment campaign in the third quarter had a negative effect on the sales force development and activities were put into place to adress this.	• Local currency sales increased by 6% • Average sales force increased by 7% to 0.9 million Oriflame Consultants • Sales growth particularly strong in Northern Africa, Romania and Turkey • Successful start-up in Algeria An overall solid performance, but weaker consumer markets, especially in Southern Europe, had a negative effect on the overall demand and productivity. Further efficiency improvements delivered good results within supply chain and administrative functions.
OPERATIONS Production	**Moscow, Russia – global factory supplying all regions**. Lipsticks, Lipglosses **Noginsk, Russia currently under construction**	**Warsaw, Poland – global factory supplying all regions.** Skin Care, Body care/toiletries, Colour Cosmetics (colour emulsions) **Ekerö, Sweden – global factory supplying all regions.** Toiletries, Fragrance
Group distribution centres	**Kiev, Ukraine** Serving the Ukrainian market **Noginsk, Russia currently under construction**	**Warsaw, Poland** Serving eight markets, Denmark to be added in 2012 **Budapest, Hungary** Serving three markets, five additional markets to be added in 2012
Offices	Regional office in Moscow, Russia	Regional office in Warsaw, Poland
Catalogue Printing	Russia printed in Finland All other CIS markets printed in Ukraine	Romania, Egypt and Turkey printed locally in each market. All other EMEA markets printed in Poland

ASIA	LATIN AMERICA	GROUP
 Sales · Sales force · Adj. Operating profit	 Sales · Sales force · Adj. Operating profit	 Sales · Sales force · Adj. Operating profit
China, India, Indonesia, Pakistan, Sri Lanka, Thailand, Vietnam	Chile, Colombia, Ecuador, Mexico, Peru	Oriflame is currently present in more than 60 markets, including markets operated by franchisees
• Local currency sales increased by 6% • Local currency sales increased by 24% when excluding Iran (closed in 2010) • Average sales force increased by 2% to 0.5 million Oriflame Consultants • Average sales force increased by 8% when excluding Iran (closed in 2010) • Sales growth particularly strong in China, India, Indonesia and Vietnam Healthy margin improvement combined with a strong growth. Asia is becoming increasingly important for the overall performance of the group. Particularly strong performance from the Wellness category.	• Local currency sales increased by 7% • Average sales force increased by 9% to 0.2 million Oriflame Consultants • Sales growth particularly strong in Colombia and Mexico Solid sales and margin development, to some extent negatively impacted by the adaption to the 17-catalogue system during the first part of the year. Good potential for further growth in the region.	• Local currency sales increased by 3% • Average sales force increased by 2% to 3.6 million Oriflame Consultants Overall challenging year with difficult conditions in core markets and a set-back in recruitment in the end of the third quarter. However, local currency sales grew during the year with strong underlying profitability improvement.
Noida, India Skin Care, Body care/toiletries, Colour Cosmetics **Kunshan and Beijing, China** Skin Care, Body care/toiletries, Colour Cosmetics, Wellness		Six production facilities in five countries and one under construction.
		Three Group distribution centres in three countries and one under construction.
Regional office in Bangkok, Thailand	Regional office in Santiago, Chile	Corporate offices in Fribourg, Switzerland and Luxembourg Group Support offices in Dublin, Prague, Stockholm and Warsaw
Printed locally in all the different markets	Latin America produced and printed in Chile	

FINANCIAL OVERVIEW

Long-term financial targets

- Oriflame Cosmetics aims to achieve local currency sales growth of approximately 10 percent per annum and an operating margin of 15 percent.
- Over the next years, the Group will continue to invest in growth both organically, with capital expenditure on existing and new manufacturing facilities, and through expansion into new markets.

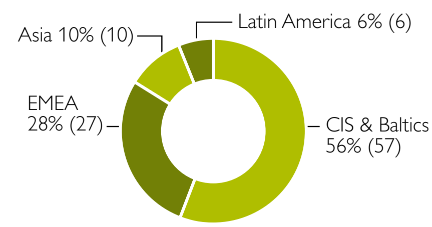
Financial achievements 12 months 2011

- Local currency sales increased by 3 percent and Euro sales decreased by 1 percent to €1,493.8m (€1,513.6m). Excluding Oriflame's business in Iran, sales growth was 4 percent in local currency.
- EBITDA amounted to €182.2m (€184.4m).
- Adjusted operating margin was 11.0 percent (11.1) resulting in an adjusted operating profit of €164.1m (€168.1m).
- Adjusted net profit amounted to €105.7m (€128.3m) and adjusted EPS after dilution amounted to €1.86 (€2.26).
- Cash flow from operating activities amounted to €135.3m (€94.8m).
- New Revolving Credit Facilities amounting to €430m were signed with the Oriflame core banks, of which €100m were cancelled following issuance of \$195m and €25m new private placement notes.
- Oriflame's Board of Directors will propose a dividend of €1.75 (€1.50) per share, amounting to €99.8m, corresponding to 94 percent of adjusted net profit.

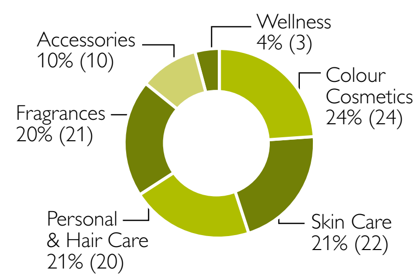
Outlook 2012

Oriflame's long-term financial targets – to achieve local currency sales growth of around 10 percent per annum and to reach an operating margin of 15 percent – remain. For 2012, the focus is to reverse the sales trend and return to growth with improved operating margin.

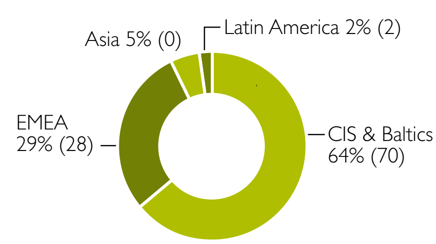
Regional sales 2011



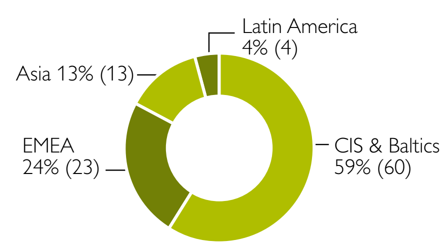
Sales by product category 2011



Regional operating profit 2011



Sales force 2011



Key figures

€ million unless stated otherwise	2011	2010
Sales	1,493.8	1,513.6
Gross profit	1,014.8	1,002.5
Gross margin, %	67.9	66.2
EBITDA	182.2	1) 184.4
Adjusted operating profit	2) 164.1	1) 168.1
Adjusted operating margin, %	2) 11.0	1) 11.1
Adjusted net profit	2) 105.7	1) 128.3
Return on capital employed, ROCE, %	29.5	34.4
Cash flow from operating activities	135.3	94.8
Cash flow from operating activities, per share, €	2.37	1.66
Equity/assets ratio, %	27.0	29.8
Net interest-bearing debt	3) 232.9	3) 200.5
Interest cover	6.1	5.6
Adjusted earnings per share, diluted, €	2) 1.86	1) 2.26
Closing sales force ('000)	3,610	3,767
Average sales force ('000)	3,599	3,515
Average number of full-time equivalent employees	7,898	8,353

1) Adjusted operating profit and adjusted operating margin are calculated before restructuring costs in the EMEA region of €0.7m and the effect on operating profit from the Iran impairment of €10.1m.
2) Before restructuring costs €5.9m.
3) Net interest-bearing debt includes US Loan fair value. The net interest-bearing debt at hedged values would be €195.1m (31.12.2011) respectively €195.4m (31.12.2010).

The share

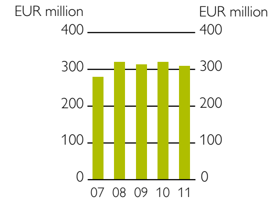
- Oriflame Cosmetics was introduced on the NASDAQ OMX Nordic Exchange on 24 March 2004.
- On 31 December 2011, the number of shareholders and SDR holders was 7,672. Each SDR represents one share.
- During 2011, an average of 276,300 shares were traded per day on the NASDAQ OMX Nordic Exchange.
- The last price paid on 31 December 2011 was SEK 217.40 giving Oriflame a total market capitalisation of SEK 12.4 billion.

Dividend proposal

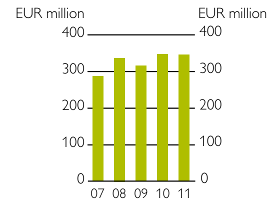
- Oriflame's Board of Directors will propose to the 2012 AGM, a dividend of €1.75 (€1.50) per share, amounting to €99.8 million, corresponding to 94 percent of adjusted net profit.

SALES BY PRODUCT CATEGORY

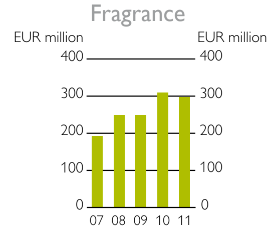
Skin Care



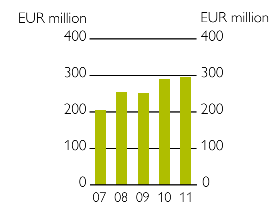
Colour Cosmetics



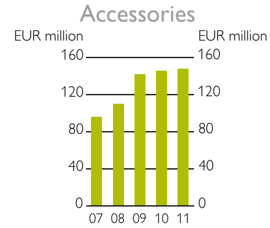
Fragrance



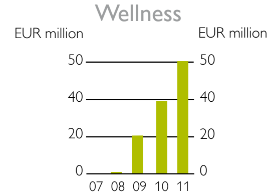
Personal & Hair Care



Accessories



Wellness



STATEMENT FROM THE CEO

Focus on long-term strengthening of profitability and service levels in a weak market

2011 was another year brimming with challenges. Several markets, primarily in Southern Europe, experienced a general decline in consumption, and in the CIS region, competition intensified in an environment of weak underlying demand. At the same time, the recruitment of Oriflame Consultants in Russia was weak in the third quarter, which led to a decline in sales force, thus resulting in consequences for the Group's sales trend.

Despite this, we delivered a sales growth of 3 percent in local currency during the year, with an underlying improvement in profitability, which we view as evidence that Oriflame's strategy works and that our business remains strong even in a challenging market climate.

The right markets and the right channels

A wide geographic footprint with presence in more than 60 countries, a vast selection of products for everyday use and innovative product development enable us to balance a weak market scenario in certain regions of the world with a stronger trend in others.

By operating in regions with high growth potential – in Asia, Latin America and Africa – we are already well-positioned and our aim is to add attractive growth markets to our map. One such market is Algeria, where we successfully established operations in 2011, with very positive contribution. While countries that are growing rapidly are often associated with instability, we are accustomed to analyzing and managing such risks. Providing an income opportunity for people in countries where conditions are harsh and the labor market is limited, particularly for women, is also one of the fundamental concepts behind Oriflame's operations.

In many of these countries, we are now also noting a rapid Internet penetration, and thus e-commerce and social media networking are increasingly spread. For example, Indonesia is now the Oriflame market in which the largest proportion of Oriflame Consultants uses internet tools in their work. For Oriflame – where the direct sales business model is a form of social network in itself – social selling through online channels has long been a natural component of the operation and we are continuously working to develop new tools and channels to support the sales process. An example is the launch of the Oriflame Facebook stores, during the year, which quickly became a popular tool for Oriflame Consultants.

The right products at the right time – long-term and sustainable

We are constantly working to improve our product offering and, during the year, we successfully launched several new innovative products. Our newest product category, Wellness, is performing well, particularly in Asia. One of the most important launches during the year is the Ecobeauty range. This range makes Oriflame the first international cosmetics company to offer products certified by four independent environmental and fair trade organisations. The development of Ecobeauty was one of several steps during the year to more distinctly integrate a long-term sustainability perspective in all aspects of Oriflame's business.

In 2011, we focused on a long-term strengthening of profitability and service levels through initiatives in our supply chain operations. A new planning system that was gradually introduced during the year enabled us to shorten lead times and thus considerably increase the service levels, and we expect to experience further improvements in 2012. Meanwhile, we continued efforts to relocate production closer to our main markets – from Western Europe to Eastern Europe and Asia, including India. During the year, we also took key steps to increase distribution through regional distribution centres instead of from warehouses in the local markets, and thus reduce transport costs, lower inventory levels and improve service levels.

Above all – the right people

We are hence well-positioned for the future and a vital part of our success is to have the right people in our network. In late 2011, we experience a tragic loss when our top Consultant Tamilla Polezhaeva passed away after a period of illness. For many years, together with her husband Vladimir, she was Oriflame's number one Consultant and played an important role in developing the operations and networks, not only in Russia, but also for Oriflame in general. As a successful entrepreneur with a unique passion for developing individuals, she was a source of inspiration over the years. We are pleased that Vladimir and their daughters are now continuing the family's operations and remain as role models for others in Oriflame. The memory of Tamilla will also continue to inspire us for a long time.

The right strategy – although the market remains unstable

A few months into the new year, I believe that we will experience another year of considerable uncertainty in our sector. This is a reality that we must face and we continue to work on our strategic initiatives with our eyes and ears wide open. In 2012, we are focusing on reversing the sales trend from 2011 and returning to growth with improved margins. Oriflame features an attractive product offering, a broad presence in emerging markets, a stable financial position and a flexible cost structure. In light of this and based on a skilled organisation filled with passionate employees and Oriflame Consultants as a driving force, it is with confidence that we are prepared to meet the challenges in 2012.

Magnus Brännström
Chief Executive Officer

Tamilla Polezhaeva

A great leader and a great personality

In November 2011, Oriflame's most successful leader Tamilla Polezhaeva passed away after a period of illness. Together with her husband Vladimir, she became the top Consultant of the Company. With an ever-enthusiastic approach to both life and business and a remarkable ability to support others, she will remain a source of inspiration to many other Oriflame Consultants and also to the Oriflame management.

"The success of Tamilla and Vladimir has inspired many of our Consultants to build their own prosperous businesses within the Oriflame networks – and will continue to do so, as Vladimir together with the couple's two daughters continue to develop the family operation," says Magnus Brännström, CEO & President of Oriflame.

Tamilla and Vladimir Polezhaeva were for many years a strong team and an important force in building Oriflame's operations in Russia and globally. They were also very supportive to Oriflame in developing the Company's work methods with the aim of making people grow as individuals and business entrepreneurs and helping make dreams come true.

45 YEARS OF FULFILLING DREAMS

ORIFLAME 2012

45 years of fulfilling dreams

Oriflame announced the launch of its 45th anniversary celebrations at the Diamond Conference in January, when over 1,000 of Oriflame's top Consultants and the Company management, gathered in Rio de Janeiro. The conference is the first in a series of landmark events this year and the theme is "45 Years of Fulfilling Dreams", reflecting Oriflame's life-long business mission.

Every year, Oriflame arranges three large international conferences that its Consultants are invited to. These conferences are an important part of the Company's program for developing and rewarding successful Oriflame Consultants, and an appreciated opportunity to meet colleagues from other countries, exchange experiences and share thoughts and ideas with the Oriflame top management. For many of these leaders, as well as the other Oriflame Consultants, joining Oriflame has been a way of fulfilling their personal dreams, in one way or another.

"My brother Jonas and I dreamed of success and we're overwhelmed when we look at the company's achievements," said Oriflame co-founder Robert af Jochnick at the Rio Gold Conference. "However, what really makes me happy is the lives we have helped change. Oriflame's business opportunity has enabled many people to fulfil their dreams – and they have had the chance to become entrepreneurs and grow as individuals. This is such an inspiration to Jonas and me as we celebrate our 45th anniversary."

Oriflame's anniversary celebrations in 2012 will culminate this summer. In August, 5,000 of Oriflame's leaders from around the world will meet in Stockholm, the Company's birthplace, for its largest annual gathering, the Gold Conference.

Thoughts about dreams coming true

Reasons for becoming a part of Oriflame – and what fulfilling dreams could mean – you will catch a glimpse of below from four Oriflame Consultants from four continents.

Argiro Kanavou, Greece

The main reason I decided to become a member of Oriflame, was that I could be my own boss. Secondly, I was taking no risks for this job. Thirdly, because I had a family and young children, I needed a job that I could adjust to my family's needs. And fourthly, I wanted to make as much money as I wanted and that was very important for me.

Ever since I was a child I wanted to buy a house on an island. This dream became a reality in 2008 when I finally got a house on the beautiful island of Paros. And it was exactly the house I had imagined. Oriflame helped me to fulfill this dream.

Also, due to the crisis in Greece, I believe that a lot of young and successful people might want to become involved in something as creative as Oriflame. And I want to be there to find and train these people and, by doing this, becoming a future President Director.

Tatiana Babariko, Belarus

12 years ago, we made a strong decision to become partners of Oriflame, because we saw what opportunities the company offered. We realized that due to these opportunities we could make our most cherished dreams come true, and we could have the things which are actually a good standard of life for everyone: a high quality home and food and good education for our children. We had been thinking about this for a while and, having considered various opportunities, we found that only Oriflame could help us realize what we wanted.

When I joined Oriflame there was no such word as "dream" in my vocabulary. The work was so intense, the life was so hard that you couldn't dream, you only thought about how to get home from work, making dinner, checking your kids' homework, and preparing for the next working day at school. What dreams can you have with all that? So, when I came to Oriflame it was like seeing light at the end of a tunnel.

Mariela Elorduy Blackaller, Mexico

My name is Mariela Elorduy Blackaller and I am from Mexicali, Baja California. I am a Diamond Director of Oriflame. I started 19 months ago, when July Guzmán invited me. Actually she came to invite my mother to the business, and when I heard about this opportunity, I really liked it from the very first time! Definitely, my dream was very clear for me when I joined Oriflame: To build Freedom! For me, the most important thing of being successful in life is to have the freedom of choosing my lifestyle and really enjoying it.

What inspires me to achieve my dreams, is my daughter. My greatest dream is to show her that everything is possible. I want her to break all the barriers of limits and fears. Also, I am inspired by helping others, and I want to inspire my team to reach all their dreams, God has given me a lot, and at this moment of my life, what I want the most is to share it.

Nguyen Thi Hieu, Vietnam

I am Nguyen Thi Hieu and my current title is Diamond Director. I found out about Oriflame nine years ago through a friend. That was when I had lost everything in life and I was a single mother raising four children by myself. Because of my extremely poor finances at that time, I had to pawn my small house.

Now my current monthly income can easily raise my four children and send them to university. My three daughters have Masters Degrees and my son is studying at a university. Those are dreams that my children have been able to fulfil thanks to the Oriflame family.

And now, I still keep reaching dreams, but not for myself. I want to share this with others so they can fulfill their own dreams, just like me.

THE ORIFLAME BRAND
– FULFILLING DREAMS IN A SWEDISH WAY

Fulfilling dreams is the core of the Oriflame brand. An attractive beauty offer along with an easily accessible business opportunity and an organisation of passionate people, create the foundation for successfully fulfilling dreams – for customers, Oriflame Consultants and employees around the world. This idea was an essential part of the Oriflame brand when it was founded in Sweden 45 years ago, and it still is.

The core brand identity

Oriflame is a beauty company selling direct and the essence of the brand lies in fulfilling dreams in a Swedish way. The conviction is that beauty products – making you look your best – in turn makes you feel good and thereby ready to do your best and enjoy all the opportunities which life offers. By striving to understand and deliver on the many beauty needs and dreams of people around the world, and by offering an entrepreneurial business opportunity to market these products, Oriflame aims to become the leading beauty company selling direct.

The Swedish heritage goes back to the very first products containing natural birch extracts and also today many of Oriflame's products are inspired by and contain ingredients from nature. The Swedish way also means being progressive and continuously pursuing better solutions, utilising science and creating innovation, as well as being in tune with the times in terms of fashion and trends.

With a clear ethical foundation, Oriflame acts in an honest, transparent and fair way in all its relationships and interactions. This results in a continuous pursuit of sustainability in its business model, the planet we live in, the people whose life Oriflame touches and the communities that it operates in.

A consistent Company culture

Oriflame's corporate culture was created in the Company's early years, formed by passionate work and financial growth in conditions of strong competition and tough challenges. The consistent culture is a direct result of the approach that proved most stimulating and effective. It is built on such values as mutual trust and respect, entrepreneurial spirit, customer focus and quality demands, and is reflected in all parts of the operations, as well as in the approach to social responsibility.

Today, 45 years after its founding, Oriflame is a steadily growing international beauty company, still remaining true to the brand's core identity, the passion of fulfilling dreams in a Swedish way.

Building a global brand locally

The brand is becoming an increasingly important factor in the purchasing decision. Consumers are not just choosing a product; they are choosing an identity. The brand must represent the customer's personality and lifestyle, yet be perceived as genuine and inspirational. In the light of this development, companies face the challenge of motivating customers to choose not only a certain product over another, but rather their brand in particular. An important part of the branding process work at Oriflame is to assess awareness, perception and attractiveness of its brand in different markets, so-called "global brand tracking," which has been carried out and completed during the year. The results indicate that Oriflame has a strong brand with an established position in many of its more than 60 markets, and in some markets, is the number one cosmetics brand. In other countries, where Oriflame started operations more recently, the brand is in a build-up phase with extensive potential to find more brand adopters.

The strategy is to build a global brand locally. The communication can be fine-tuned with a specific target group in mind, emphasising what is attractive in a specific market, but the perception of Oriflame must remain the same globally.

Integrated marketing activities

To secure this and thus provide the best platform for becoming the number one beauty company selling direct, Oriflame provides a common brand identity system to facilitate this work in all parts of the organisation. Additionally, planning and preparing marketing activities, advertising and PR are becoming more integrated between the regions and the global functions while each country is responsible for adaptation and implementation in their market. More strategically planned marketing activities have proved more effective and are also required for handling online channels and social media as these channels are becoming increasingly important.

A few years ago, Oriflame initiated a branding process to define content and to further develop its visual expression, including the logotype. During 2010, the new logotype was presented with the word Sweden incorporated as a symbol of the Company's heritage and a source of inspiration. Also, a new design for local service centres has been developed and will be rolled out over the coming years, starting in Warsaw in 2012.

Successful partnership

Oriflame foresees major potential for promoting the brand through well-matched partnerships with celebrities as well as specialists and organisations. In 2011, the Company initiated co-operation with the Women's Tennis Association (WTA). The WTA Tour inspires women around the world to look great, have fun and be the best they can be – a perfect context for the Oriflame brand. Additionally, women's tennis is a large sport in many of Oriflame's core markets and several of the top women tennis stars are from these countries. This first year of partnership was very successful with large attention and media coverage around the world. Many local PR events were held in connection with the 22 tournaments, not least the WTA Championship in Istanbul in October.

Caroline Wozniacki
Top tennis player and Oriflame
charity ambassador

A SUCCESSFUL YEAR OF PARTNERSHIP

Since 2011, Oriflame has been a proud sponsor of the Women's Tennis Association (WTA). The WTA is the perfect partner for Oriflame as both organisations share a passion and spirit to help women fulfil their dreams while having fun, looking great and being the best they can be. As a truly global sport, with players in the WTA from almost 100 countries, it also fits perfectly with Oriflame's wide global footprint.

During the year, Oriflame was present at 22 tour events in key markets across the globe, among them the premier events in Moscow, and the year-end championship in Istanbul. Oriflame's presence at the tour events range from high-visibility signage to different PR activities such as make-up booths and player makeovers, broadcasted on YouTube. In fact, some of the most-viewed Oriflame YouTube clips are from the WTA.

Caroline Wozniacki – charity ambassador for Oriflame

Community involvement, and in particular empowering children through education, is an important mission for Oriflame. Through a wide range of activities in different parts of the world, Oriflame contributes to providing opportunities for children and youths to change their lives.

During the year, top-seeded Danish WTA tennis star Caroline Wozniacki became Oriflame's first charity ambassador. As a young woman who has used the opportunities available to her to fulfil her dreams, she personifies what Oriflame's community involvement stands for and is an inspiration to many.

Caroline Wozniacki will support Oriflame Foundation's mission for community involvement globally, taking part in some awareness and fundraising activities, including visits to Oriflame's local charity partners. She will also promote the iconic Oriflame charity bracelet.

"I'm proud to be Oriflame's first charity ambassador. Oriflame is making a real difference in communities around the world and I look forward to helping spread the message about this important cause. I will wear the Oriflame charity bracelet as a reminder of the children whose lives are changing for the better," said Caroline Wozniacki.

The partnership began in Turkey, where Caroline Wozniacki visited the Educational Volunteer Foundation in Istanbul and held a short tennis lesson for the children there.

ORIFLAME
SWEDEN

OFFICIAL COSMETICS OF WTA

THE BUSINESS MODEL

– A RESILIENT CONCEPT VALID WORLDWIDE

Oriflame is a cosmetics company selling beauty products to millions of people all over the world. But there is more to it than this. Oriflame offers people a chance to change their lives – whether in terms of entrepreneurial challenges for the Oriflame Consultants, attractive career opportunities for the employees or unique shopping experiences for the customers. Oriflame's business is about making money today and fulfilling dreams tomorrow.

Staying true to the business concept

It all started in Sweden in 1967, when Oriflame was founded by the brothers Jonas and Robert af Jochnick together with Bengt Hellsten. They wanted to give people the opportunity to benefit from good skin care and cosmetics, and they wanted their products to be inspired by the natural beauty that the world associates with Sweden. Rather than investing in a chain of shops, they decided to move the retail operations into the homes of Swedish consumers. The products were distributed to the homes of entrepreneurial Oriflame Consultants all over the country and from day one they had a network of potential customers among their friends, colleagues and neighbours.

Since then, Oriflame has given millions of people in Europe, Asia, South America and Africa the opportunity to start their own business, often in countries where the freedom to do business was discouraged or restricted to an elite. In that sense, Oriflame has helped tear down walls. Oriflame built the first cosmetics factory in Warsaw after the fall of the Berlin wall and was early to enter such countries as Indonesia and India.

During 45 years, Oriflame has remained true to its original concept of high-quality beauty products inspired by nature and an entrepreneurial culture. Today, Oriflame is a steadily growing international beauty company, selling direct in more than 60 countries worldwide.

A strategy that works worldwide

Through its unique business concept – Make Money Today and Fulfil Your Dreams Tomorrow™, Oriflame offers a leading business opportunity for people who want to start making money the same day they join and work towards fulfilling their personal dreams and ambitions. A sales force of approximately 3.6 million independent Oriflame Consultants has seized this opportunity and is successfully marketing Oriflame's broad portfolio of beauty products, creating combined annual sales of around €1.5 billion. Oriflame's strategy for attaining its goal of becoming the number one cosmetics company selling direct is built on four cornerstones:

- Brands & Products
- Network Marketing
- World Class Service
- People & Culture.

It is within these areas that Oriflame has its most valuable competitive strengths and every action taken in the Company should be related to the guiding principles for these corner stones.

By continuously improving the consumer offering and earning opportunities, Oriflame will attract an increasing number of Consultants. Through consistent evaluation and prioritisation with the Oriflame Consultants in focus, management shall ensure an optimal allocation of resources.

Wide geographical footprint

Oriflame's business model has proven its resilience and validity in emerging, as well as mature markets. The key drivers for becoming an Oriflame Consultant, such as being your own boss, setting your own goals, the low barriers of entry and exit, the lack of discrimination regardless of one's sex, ethnicity, age, education, physical condition or financial resources, are all in line with a growing population of entrepreneurs that is less dependent on secure employment.

Today, Oriflame has a wide geographical footprint with operations in countries in Europe, Asia, Africa and Latin America. Many of these are emerging markets or developing countries with potential for reaching higher standards of living as well as larger freedom for business enterprise over time. Being a part of the development in these countries, providing people a chance to earn much-needed money and grow as individuals, corresponds with Oriflame's idea of empowering people. Presence in emerging markets with rapid growth from low levels, also represents an important potential for Oriflame to attract Consultants and new groups of consumers as the economy and demand for cosmetics will increase.

> *"Oriflame has a wide geographical footprint with operations in four continents.*

Attractive business opportunity

The Oriflame business opportunity means that its Consultants can make money the same day they join. It is easy to become an Oriflame Consultant and it requires no investments or long-term commitments. An Oriflame Consultant orders products at a reduced price and sells to end customers. By doing so they earn immediate profit on all sales. Oriflame Consultants, who invite others to join and build a sales team, earn additional income based on the team's sales.

An attractive business opportunity for Oriflame Consultants

Oriflame's business opportunity for its Consultants can be summarised in seven key points. By continuously improving on its seven key areas, Oriflame shall attract an increasing number of Consultants.

1. Low entrance fee, credit offered and no stock required – easy to join and no risk.
2. Wide portfolio of quality beauty products created in Sweden, at affordable prices.
3. Frequent, dynamic and attractive catalogues, with many new products that make selling easy.
4. Flexible and reliable ordering, delivery and payment system – easy to do business with.
5. Personal growth and development through Oriflame Academy and SARPIO (Sales and Recruitment Processes in Oriflame) – at no cost.
6. Unlimited earning and career opportunities.
7. Enjoy a direct selling company with a human touch and a sense of belonging to a friendly, energetic and fun global community.

DIRECT SELLING

– A SALES METHOD IN TUNE WITH THE TIMES

In a time of major changes in the retail sector, direct selling has turned out to be a sales channel very well suited to meeting modern needs. It offers a personal shopping experience on the customers' own terms and has a natural fit with the rapidly growing online-shopping trend. In other words, a resilient sales method with good prospects.

Direct selling meeting new market conditions

Direct selling, as a traditional sales method, may seem best suited for emerging markets without a developed retail sector. However, lately new consumer behaviour has been putting traditional retail to the test with, for instance, the growing demand for home deliveries, personal shoppers and, in particular, online shopping. The retail industry is being forced to find new methods, services and market channels to survive. Direct selling is meeting new market conditions in a rather progressive manner: adjusting the shopping experience to the consumer regarding timing, place, entertainment and personal approach. Moreover, Oriflame's direct selling model fits in very well with online shopping, having a global supply chain structure in place.

Key sources of consumer information that are evolving are word of mouth, spread in internet forums, blogs, fan clubs or informal gatherings with friends, particularly when it comes to shopping for beauty products. Consumers prefer advice based on personal experience, confirmed by a broad and well-known network of references. The direct seller is a familiar and trustworthy source of information about the product, brand, company, industry and supplier. As the competition for consumers' attention and confidence increases, direct selling offers a unique way of gaining loyal customers.

Catalogues bring products to life

The Oriflame catalogue is how the brands and products come to life for consumers and Oriflame Consultants. The catalogues are literally shops without walls, providing the Oriflame Consultants with their most important, tangible sales tool – making the whole difference between good sales and great sales. By providing the ultimate shopping experience to consumers at a preferred time and place, the Oriflame catalogue supports the business opportunity to its Consultants. The stronger the consumer offer, the greater the potential to sell and grow the business. Alongside the catalogue, online social networks are becoming significant grounds for sales and recruitment activities, supported by PR, events, leaflets, posters in service centres and, for major launches in key markets – TV, print and billboards.

A new Oriflame catalogue is distributed every three weeks in all markets, except in Asia and a few exceptional markets in EMEA where the distribution period is four weeks. Each catalogue edition has its own theme and includes a display of selected products as well as new offers and seasonal promotions, altogether presenting around 700 products. Each region plans and produces its own catalogue editions every three or four weeks. Globally the catalogue is printed in over 40 different languages and it is also available to view on-line and as a tablet version in most markets.

Analysis and creativity in the catalogue process

To make the process of creating such a large amount of versions and editions of catalogues effective, planning of every detail is required. Great efforts are made to differentiate the catalogues to make sure that each issue offers a new and exciting shopping experience. The outline of a new catalogue begins more than a year prior to publication. Regional planning teams create a catalogue plan that includes ideas for the themes, what products will be shown in each catalogue, what page they will appear on and what the offers will be. There are constant updates and changes along the way in response to consumer needs and local market conditions, so it is crucial for both planning and catalogue production teams to be flexible and responsive.

The process involves a lot of analysis of current and historic results together with market trends, but also creativity in developing new exciting ideas and promotions. It is an act of balancing the objectives of sales volumes and margins with long-term brand-building and the demand for an exciting shopping experience for the customer.

> ***"As the competition for consumers' attention and confidence increases, direct selling offers a unique way of gaining loyal customers.***

Online increasingly important channel

Oriflame's digital media strategy has the aim of supporting the overall vision of becoming the number one beauty company selling direct, with long-term efforts adapted to the rapid development in the digital business universe. As demand for online availability increases, the sales force is

provided with new and efficient tools that allow them to continue their business activities in this environment. Both Oriflame Consultants and customers must be offered fast, reliable and intuitive order management. Moreover, the digital arena provides an increasingly important channel for brand-building.

> ***"The utilisation of online tools continued to increase during the year.***

The utilisation of online tools continued to increase during the year. More than 60 percent of the sales force uses the online services regularly and more than 80 percent of all orders are now placed using the Internet. Further, the reach on major social media platforms increased significantly, through Facebook, YouTube, vKontakte as well as other major social media channels, including blogs of major influencers within fashion and beauty in key markets. Oriflame now hosts some of the larger fan pages for beauty companies in many of its markets and around 50 official fan pages in total.

Tools to improve business growth

Oriflame Consultants are offered a number of methods to help them succeed. This include Oriflame's training program Oriflame Academy, and different tools gathered under a common system: SARPIO – Sales and Recruitment Processes in Oriflame. It was developed in order to offer Oriflame Consultants support in managing their businesses, while ensuring that they convey the Oriflame brand in a consistent way. SARPIO is a proven system and path for continuous growth and advancement in the reward system – the so called Oriflame Success Plan. This includes various tools that help Oriflame Consultants to track performance of their networks and identify action areas that can improve business effectiveness and drive growth. It also improves communication with the sales force. In 2011, Oriflame continued to develop features for its Consultants to use in monitoring and follow-up in their networks.

A tablet version of the Oriflame business opportunity presentation for the Consultants to use in the recruitment process was launched in most countries during the year. Additionally, the Oriflame catalogue as digital application for tablets with global coverage was implemented.

The option in some countries to set up virtual stores on Facebook in order to generate sales leads, is used by an increasing number of Oriflame Consultants. It is an effective channel also to promote and share information about products and the income opportunity offered by Oriflame. The visitors can place an order to the Oriflame Consultant directly from the Facebook application, register as an Oriflame Consultant in the network of their friend, promoting the application, or easily proceed to the Oriflame website.

New product-oriented web design

During the second half of 2011, a new global Oriflame website design was launched. The main objective was to create a more attractive product presentation as well as to focus even more on the product offering. Moreover, the new website should provide a more user-friendly function for registration of new Oriflame Consultants.

The new website is built to cater for the increased need for social media integration. The Oriflame websites had 20 million more visits in 2011 than the previous year, of which approximately 1.5 million visits were generated from Facebook – numbers that signal the accuracy of the Oriflame digital strategy and successful brand-building in new channels.


facebook
Anna Wright Beauty & Health by Oriflame
Thank You!

SELLING DIRECT – AND ONLINE

Social selling is new on digital platforms, but not to Oriflame. As a beauty company selling direct, Oriflame is in itself a social network – with a head start in social commerce reaching back nearly half a century. During the past year and a half, Oriflame has taken the natural step of launching its own Facebook application – "Oriflame Leads Generator for Facebook".

With an increasing number of followers, and with word-of-mouth marketing built right into the business model, social networks are an ideal outlet for Oriflame Consultants, customers and the company itself. Oriflame sees great potential for online tools and conversations to continue propelling the success of its direct selling model as well as complementing the traditional tools for sales and recruitment.

Oriflame on Facebook

Oriflame's Facebook application enables Consultants to open their own Oriflame beauty store with just a few clicks directly on Facebook. The application offers the entire range of Oriflame's beauty and health products to all of the Consultants' Facebook friends along with information about the Oriflame business opportunity. The integration with Facebook lowers entry barriers for consumers and brings the Oriflame Consultants closer to their customers. Thus, the application is the perfect tool for sales and also for recruitment of new Oriflame Consultants, with a brief introduction of the Oriflame income opportunity. The Oriflame Leads Generator for Facebook is designed to act as a complement to all the other tools available to Oriflame Consultants to help them succeed.

Currently, more than 12,000 Oriflame Consultants have installed the Oriflame Leads Generator for Facebook. Initially, this tool is available in ten countries and the plan is to gradually expand it to more Oriflame markets.

New make-up for Oriflame's website

In late 2011, Oriflame launched a new attractive design for its website as the first step in a venture to make the site more accessible and convenient while also showcasing new visitors the great product offering and sparking interest in Oriflame's unique business opportunity.

The new web design offers the same strong product focus as the catalogue, with the long-term aim of making it as strong a selling and buying tool as the printed catalogue is today – but with the benefits and features that interactive media offers.

The number of orders placed online has exploded in the past few years, currently with more than 80 percent of orders placed using websites. During the year, the number of visitors to Oriflame websites worldwide has increased considerably.

ORIFLAME'S PRODUCTS
– ETERNAL FAVOURITES AND EXCITING NEWS

Oriflame strives to maintain strong favourites and deliver a steady flow of new innovative products, affordable for the many. Oriflame's product portfolio has been built up over the years and is continuously renewed to be attractive to customers all over the world. The most recently added and still smallest product category, Wellness, with products such as vitamins and nutritional shakes, has been a great success, not least in the growing markets in Asia.

Categories targeting different needs

Oriflame provides a broad assortment of distinct brands in different price segments to meet varied demand and preferences within and between markets. The portfolio covers a wide range of beauty products: skincare solutions for every need, exclusive and qualitative fragrances, a wide and sophisticated range of colour cosmetics and extensive hair and body care, innovative wellness products and many fashion accessories. Many of these products are used and enjoyed every day by Oriflame's customers around the world.

Today, customers are offered a total of approximately 1,000 beauty products in six product categories, and more than a third of all products are renewed during a year.

For the Skincare and Fragrances categories, 2011 was a challenging year, while Colour Cosmetics and Personal & Hair Care experienced a fairly steady trend. Oriflame's Wellness products, launched only three years ago, still account for only a small share of Oriflame's total sales but the category has demonstrated a very positive development since the beginning.

> *"Oriflame provides a broad assortment of distinct brands in different price segments.*

Ecobeauty – natural, ethical and environmental-friendly

The new concept, Dare to Be, targeting a younger audience, developed positively during its first year in the market, especially in Asia, with favourable sales of brands such as Very Me. In 2010, Oriflame started up a co-operation with Disney within the Kids accessory segment. The successful co-operation was extended in 2011 to Personal Care & Fragrances leading to significant sales increase within the Kids segment. The combination of Disney's popular characters and Oriflame's product expertise has proven fruitful. The Oriflame/Disney collections have met both consumers and sales expectations.

In February 2012, the new Ecobeauty line was launched, after a pre-launch during the end of 2011. The Ecobeauty range offers Oriflame's most natural, ethical and environmental-friendly products, certified by Fairtrade, FSC, Ecocert and The Vegan Society. The launch of Ecobeauty is another step in the Company's efforts towards more sustainable operations, as well as a way of meeting increased demand for selling beauty products with high ethical and environmental standards.

Launches endorsed by celebrities

Endorsements from celebrities and specialists are important success factors in launches of new products and promotion of marketing campaigns. During the campaigns, the chosen partners are presented in catalogues, advertising and sales consultant magazines to attract interest in the products and strengthen the brand image.

Within Colour Cosmetics, strong and innovative concepts were launched in 2011, such as the Maxi Lash Mascara. In the CIS & Baltics region, the launch was supported by the famous singer and Eurovision Song Contest participant, Alsou. In 2011, Oriflame also initiated a co-operation with world-famous actress and model Monica Bellucci for the re-launch of the luxurious anti-ageing range Royal Velvet, which rendered major publicity in the media, social networks, YouTube, and strong sales results.

Another major event was the launch in the CIS & Baltics and EMEA regions of the Studio Artist Collection, a new range within Colour Cosmetics. The Studio Artist Collection was developed with make-up artist Jonas Wramell and endorsed by the Swedish Hollywood actress Malin Åkerman. In another co-operation, the Swedish Dental Association endorsed oral care products in Oriflame's Optifresh toothpaste range.

Oriflame puts major effort into continuously developing attractive and innovative product packaging. In 2011, this work was recognised when the Wonder Colour Lipstick was awarded a Bronze Pentaward in New York for its packaging design. Oriflame has previously won Pentawards in 2009 and 2010 for graphic designs.

Decades of beauty research

Oriflame's product offer is a result of decades of skin care and cosmetics research and takes inspiration from its Swedish heritage. The products are developed using cutting-edge technology and are manufactured according to the highest quality standards. Ingredients are of high purity and chosen according to stringent ethical and environmental policies. Oriflame has never tested products or ingredients on animals during product development – and never will. This choice was made when Oriflame was founded in 1967.


PARADISE

The Company's accumulated knowledge and experience has been gathered into one dedicated Research & Development team based in two locations: Dublin, Ireland and Stockholm, Sweden.

In Dublin, the focus is on product development. Experts develop and clinically test high-performance formulations, while providing technical support in the areas of regulatory affairs, product safety and industrialisation to the manufacturing facilities. These projects deliver technology and innovative new products for the Skincare, Colour Cosmetics, Fragrance and Hair & Personal Care categories.

In Sweden, focus is on research on skin biology. In 2011, the Swedish research unit was moved from its former location to the premises of the Stockholm Group Support Office, thus enabling it to better integrate research with closely related operations.

"Oriflame's product offer is a result of decades of skin care and cosmetics research and takes inspiration from its Swedish heritage.

From idea to launch

The process from idea to launch can take several years, involving substantial resources through the functions of marketing, R&D, manufacturing and distribution. Being at the forefront of trends and needs is essential to delivering a strong offer to the market on time. This is important for gaining new customers, and making old customers remain loyal to the brand.

Oriflame's customers come from various parts of the world; have different habits, incomes and needs. To create attractive offers for such a heterogenic customer base requires a wide product range, incredibly fast pace and instant response to new trends. It is a constant challenge to stay ahead of competition and bring innovation launch after launch. A strong team of brand managers representing all six product categories, continuously monitors trends, consumer needs and the competitive environment to stay ahead of the competition and gain valuable insights. Ideas originate from various sources such as international fairs and exhibitions, global trend reports, research projects and focus groups.

FRAGRANCES

The Fragrances category generated 20 percent of total sales after a challenging year. Both male and female segments were affected by a slowdown in sales. Some of the pillar brands achieved strong growth versus 2010 however, with successful introductions such as Eclat with Eclat Weekend and Volare with Volare Magnolia. In the low mass segment, the re-launch of the Ice, Fire and Air trilogy contributed positively to sales. The most successful mid mass segment launch was Delicacy, developed in collaboration with award-winning pastry chef, Christophe Michalak. Oriflame also launched the first haute couture designer endorsed fragrance, By Marcel. In the male premium segment, the most successful launch was Architect.

PERSONAL AND HAIR CARE

The Personal and Hair Care category generated 21 percent of Oriflame's total sales in 2011. Existing brands and segments like Optifresh experienced a solid growth, expanding Oriflame's position within the oral care market further. New brands such as Nature Secrets were successfully launched during the year. The category managed to grow not only the affordable concepts, but also the more prestige brands like Milk&Honey, successfully introducing new brand extensions. In 2011, the co-operation with Disney expanded into the Personal and Hair Care kids segment, creating great success and excitement.

ACCESSORIES

The Accessories category continued its growth in 2011, accounting for 10 percent of total sales. The category managed to further extend the fashion collections, offering modern and trendy items to Oriflame Consultants and consumers. Oriflame is offering a large assortment of products – from manicure sets and make-up brushes to handbags, jewellery, men's and kids items. External co-operations with illustrators, designers and brands as well as the work on fashionable cross category collections continued in 2011.

COLOUR COSMETICS

The contribution from the Colour Cosmetics category remained stable compared to 2010 at 24 percent of total sales. The category was particularly driven by the launch of the Studio Artist collection, Oriflame's first professional make-up range, containing exclusive Illuma flair technology for perfect finish in any light. The launch was supported by Swedish Hollywood actress Malin Åkerman, and sold more than 1 million units during the year. Other highlights were the successful re-launch of one of Oriflame's biggest premium brands – Giordani Gold – as well as launches of new products such as Ruby lipstick. The entry level brand Pure Colour and the youth targeted Very Me both experienced very strong growth during the year, confirming the efforts to better differentiate between brands in the category.

WELLNESS

The Wellness category experienced significant growth during 2011 and accounted for 4 percent of Oriflame's sales for the year. So far, the Wellness range has been launched in 40 markets and the roll-out continues in 2012 and forward. Two Wellness products are among Oriflame's top ten best selling products globally – Wellness Pack Woman and Natural Balance Shake Strawberry. In 2011, Hair and Nail NutriComplex for stronger hair and nails was launched in CIS & Baltics and EMEA. The key focus going forward will be on supporting the sales force with Wellness-specific sales tools and guidelines.

SKIN CARE

The Skin Care category accounted for 21 percent of total sales in 2011. The category experienced a challenging year, driven by lower performance in the CIS region. Tender Care is still the top selling product, supported by new flavours launched during the year. Other top selling products included upper mass segment day creams, such as Time Reversing and Ecollagen, which experienced positive sales and unit growth despite the difficult economic climate. The youth segment also grew strongly, driven by the Pure Skin brand. Lower priced brands such as Essentials experienced unit and sales growth whilst middle mass segment brands such as Optimals, saw slightly lower unit and sales growth due to increasingly competitive market conditions.

PEOPLE AND CULTURE

– INTERNATIONAL AND PASSIONATE

Togetherness, spirit and passion are the guiding values of Oriflame's strong and consistent Company culture, promoting entrepreneurship and creativity. Everyone who joins Oriflame should feel empowered by a stimulating and dynamic work environment that makes them grow as people and professionals. Oriflame's international working opportunities are an important factor for attracting talents – employees as well as Oriflame Consultants.

Global work environment

In its four regions, Oriflame presents a truly global work environment with around 3.6 million independent Oriflame Consultants in more than 60 countries and around 8,000 employees located in offices all over the world. And as a growth company, Oriflame continuously adds new markets to its world. In order to retain employees and attract an ever-increasing sales force, it is vital for the Company to offer great motivation and potential for development.

A strong and consistent Company culture

The people behind Oriflame are the reason for the Company's success. But how does one run a company that operates in so many countries throughout the world, in over 40 languages and where values, religious beliefs and political convictions vary greatly from region to region? The key is the corporate culture. Oriflame's culture is based on entrepreneurship as well as respect for and belief in peoples' capability.

Oriflame is striving to become the number one workplace with an inspiring Company culture for both its employees and its Consultants. The Oriflame core values reflect the team-oriented and passionate people in the organisation, characterised by the striving for new solutions and great results. These three core values should permeate all relations and actions in Oriflame.

TOGETHERNESS
People who work together and share the same goals achieve greater results. They motivate each other and know that pulling together is more rewarding than going it alone.

SPIRIT
People with a can-do spirit have a winning attitude and never give up. They are prepared and committed to do what it takes to succeed.

PASSION
Passionate people have the power to change the world. They love what they do and they believe in it. They know deep down that they can make a difference.

Oriflame wants to ensure that all involved understand the core values and principles of the Oriflame culture. For employees, The Oriflame Way is a one-day seminar presented by senior managers trained for this purpose. The seminar is given in English, Russian and Spanish to fully reach its target audience. To date, more than 1,500 employees have attended the Oriflame Way and the CEO and President Magnus Brännström has personally conducted many of these training sessions, as it is a highly prioritised matter in the Company. For Oriflame Consultants, the Oriflame core values are presented and discussed in the business opportunity presentation, at conferences and other gatherings.

Oriflame Consultants – encouragement with rewards and incentives

Oriflame offers an attractive business opportunity for its Consultants around the world, with low entrance fee and no stock required, making it easy and risk-free to join. A wide portfolio of innovative beauty products, exciting catalogues, and reliable systems for ordering, delivery and payment, are tools for the Oriflame Consultants to form a successful business. Besides making money from the first day of operations, being an Oriflame Consultant means personal growth and development through free training and from belonging to a company with a human touch and a friendly, energetic and fun global community.

When joining, Oriflame Consultants get the chance to run their own company – setting their own targets, planning income and working hours – and thereby changing their lives. The great majority who join Oriflame shops merely for themselves, their families and a few friends, while others go on to make a full career with Oriflame, building a business and recruiting other Oriflame Consultants to their network. However, Oriflame's direct contact with each and every of its Consultants is important to ensure the spirit and passion in the sales force.

Either way, Oriflame has a well-developed system of tools and incentives to encourage the people who join the Company. An important part of this is the Success plan, according to which Oriflame Consultants are rewarded for their own sales, as well as those of any Oriflame Consultant within their network. It provides an incentive to maximise network sales and to recruit new Oriflame Consultants to grow the scope of their network. Apart from the financial compensation, successful Oriflame Consultants also qualify for Senior Manager and Director titles depending on their achievements.

Conferences for sharing and company updates

Every year, Oriflame invites its top Consultants to major international conferences in exotic locations, where key initiatives are launched and new products are presented. Equally important, the conferences provide a venue for leaders to exchange ideas with top management and between themselves.

2011 year's Gold Conferences, gathering Oriflame's top Consultants, were held in Paris, Lisbon and Vancouver. Together they hosted 4,700 leaders from all regions. The 2011 Executive Conference was held in Sydney for the top 300 Oriflame Consultants and the Diamond Conference for the top 1,500 Oriflame Consultants took place in Bali. In August 2012, a global Gold Conference will be held in Stockholm, where the success of Oriflame Consultants over the last 45 years will be celebrated. Besides these regional and global conferences, large one-day events are held in some countries to motivate Oriflame Consultants and give them the opportunity to meet and exchange experiences. In 2011, such events were arranged in Moscow with more than 20,000 Oriflame Consultants attending, and also in Ukraine and Turkey.

Training for growing

Oriflame offers a variety of training programmes for its Consultants, focusing on both personal development and business skills including product knowledge. Advanced training is provided through the Oriflame Academy, most of which is free of charge. The core of the Academy is carried out by the leaders in the networks, while more advanced modules are predominantly held by Oriflame employed sales management. Oriflame has developed and started to implement online versions of these training courses and expects these e-learning courses to grow in the future as an important complement to physical meetings.

Employees – various career opportunities

Oriflame offers challenging assignments in various working areas and the Company's international work environment offers opportunities to work with people with many different nationalities, to take part in global projects or to move for a position in another part of the Oriflame world. The Company's operations include work within areas such as sales, marketing, branding & communication, supply, finance, legal and business development. In addition to these functions, Oriflame provides unique careers within research & development and catalogue creation. The Research & Development function in Dublin and Stockholm employs over a hundred scientists and technical experts, covering many scientific areas.

A creative career at Oriflame means a unique possibility to be involved in the production of one of the world's largest beauty publications. The core team comprises art directors, layout artists, layout editors and copywriters.

Attracting talents crucial for success

Attracting and keeping talents in the Company is crucial for Oriflame's future success. To strengthen Oriflame's talent management, efforts are being put into establishing structured frameworks, explicit ownership and a sharp agenda for the Company's talent management processes. This involves presentation and training in attracting, recruiting, developing and retaining key people. Oriflame assesses that it has a good employer brand, with its international work environment highly valued by students and young professionals. International summer internships and participation in student fairs are activities aiming at building Oriflame's brand among these groups of potential employees.

The responsibility for recruitment as well as practical talent management lie with the regions, while the central human resources function provides strategies and tools to facilitate and support their work.

Oriflame's employees develop both in their day-to-day work and through the Oriflame Academy, a unique training program. The internal three-step development program for managers has been created to support and strengthen Oriflame's culture, increasing integration, strategic understanding, and leadership and management skills. In 2011, an initiative was taken to provide online language training for employees, mainly in English, with the aim of promoting greater mobility in the Company.

Creativity from diversity and equality

Oriflame aspires to reflect the globally diverse audience that it serves. In addition to hiring the best talents, Oriflame believes that diversity of gender, nationalities and cultures leads to the creation of better perspectives, ideas and products. With offices worldwide, each is a venue for diversity and common experience. For example, some 40 nationalities are represented at the Stockholm Group Support Office.

Oriflame always strives for an even distribution of gender and ethnic background within all categories of employees. All employees should be evaluated based on the same basic principles; performance, experience and potential. To facilitate this, a performance management process has been implemented. The aim is to set key business targets and personal objectives and thereby creating a dialogue between employee and manager.

Oriflame is, overall, a female-dominated working place. The aim is to also have a higher share of women in management positions. Oriflame strives for objective and competitive remuneration. Salary mapping, comparing wages, is one way of ensuring the Company is compliant with both law and policy for equal opportunities when it comes to differentiating based on gender.


ORIFLAME

MARKET
– FUTURE OPPORTUNITIES WITH A WIDE FOOTPRINT

Oriflame has a wide global footprint with presence in more than 60 countries and is one of the market leaders in around half of these markets. Operations are run in four regions – CIS and Baltics, including Russia and other former Soviet republics; EMEA, including Europe, Middle East and Africa; Asia and Latin America.

Well-positioned in a growing industry

The beauty and direct selling industry is well-positioned for future growth and Oriflame is one of the leaders in the industry, growing faster than most of its competitors. Globalisation has opened up extensive potential markets around the world where Oriflame's business model has a very good fit. Today, Oriflame is active in more than 60 countries, of which a majority is defined as emerging or frontier markets. The company's wide geographic footprint combined with the direct selling business model forms the foundation for a long-term growth.

> *Globalisation has opened up extensive potential markets around the world.*

Positive signs in a challenging year

2011 was a challenging year. The conditions in Oriflame's core markets in the CIS region, remained difficult and there was a set-back in recruitment in the end of the third quarter. Although positive effect from activities to restore the sales force were achieved in the fourth quarter, continued efforts will be needed in 2012.

In the EMEA region; Europe, Middle East and North Africa, the recruitment is holding up well, but the weak consumer sentiment in parts of Europe has negative effects on the overall demand in these markets. However, Oriflame noted a strong development in North Africa, with a promising start-up in Algeria, despite political turbulence during the year. Also Turkey developed strongly, and is seen as a high potential market going forward.

The development in the Latin America region was partly impacted negatively by adaption to the 17-catalogue system during 2011. The development improved throughout the year and Oriflame sees a good potential for further expansion in this region.

The Asia region continues to show a strong growth in countries such as China, Indonesia, Vietnam and India, and in particular within the Wellness product category.

A strong competitor

Being a cosmetics company selling direct means that Oriflame competes both with major cosmetics manufacturers for end customers as well as with other direct sellers for consultants.

In Eastern Europe, direct sales as a channel is estimated to have around 20 percent of the total cosmetics and toiletry market, compared with the global average of approximately 12 percent. The two largest cosmetics companies in Eastern Europe selling direct are by a wide margin Oriflame and Avon, but there are many other direct sellers competing for consultants, such as Russian Faberlic, American Mary Kay and Amway. Moreover Oriflame competes with global manufacturers such as Procter & Gamble, L'Oréal, Beiersdorf and Unilever.

In Latin America, direct selling is very popular and, in some countries, represents about 30 percent of the cosmetics and toiletry market. Oriflame is still a small player competing with Avon as well as local companies such as Natura, Belcorp, Yanbal and Jafra.

Asia's beauty market is dominated by Unilever, Procter & Gamble and L'Oréal. However, direct sales have a significant share of the market in many Asian countries. Amway and Mary Kay are the largest direct sellers in China, while Amway and Oriflame have the largest market shares among direct sellers in Indonesia and India.

The market of beauty products

Beauty products and direct sales are a compelling combination. The cosmetics industry is recognised as one of the fastest-growing consumer products sectors and it is the most important sector for the direct sales industry, representing about one-third of total global direct sales.

For the next five-year period, the global market for cosmetics and toiletries is forecasted to grow by an annual average of 2.8 percent at constant prices, reaching $488.6 billion in 2016, according to Euromonitor.


ORIFLAME
ORIFLAME

GLOBAL SUPPLY

– OPTIMISING FOR HIGHER SERVICE LEVELS AND SUSTAINABILITY

Cut lead times, raise service levels and build capacity closer to the customer to support growth, all with a sustainable perspective. This is the strategic base for Oriflame's global supply function when planning sourcing, manufacturing and logistics for its worldwide operations. The overall aim is to make the Oriflame experience easy, reliable and friendly for the Oriflame Consultants, and thus promote a long-term positive development of sales as well as recruitment of Oriflame Consultants.

Some 600 million products are sourced annually from about 60 suppliers and shipped to Oriflame's more than 60 markets worldwide. The Global Supply Strategy focuses on making the process as effective and reliable as possible for the consultants and customers by better aligning supply and sales in the Group. The strategy involves cutting lead times and increasing flexibility in the end-to-end supply chain by consolidating the inventory closer to the main markets and by eliminating intermediate warehouses in the various markets. Building capacity to support growth, increasing in-house manufacturing and sourcing regionally where appropriate are other important parts in the supply operations. The target is to have a base of flexible, efficient and quality-orientated suppliers who ensure product availability, quality, delivery times, delivery reliability and accuracy in all of Oriflame's markets.

Higher service levels with new supply chain system

The basis for an effective supply chain in a global company such as Oriflame, is a good information flow; fine-tuned forecasting and an effective planning system for control of each step in the supply chain.

In early 2011, a new planning system was implemented and rolled out in all regions. The use of this system substantially increases immediate visibility in terms of delivery times and quantities and strengthens co-operation between all units involved in the planning process.

Integration between the new supply chain system and Oriflame's forecasting tool enables a better platform for the important integration of forecasting and planning. Also, data available in the current systems regarding sales in all regions and markets, such as units per order and sales per consultants, are being used increasingly to promote forecasting best practice in the organisation and thus support the business better. Overall, the forecasting accuracy increased during the year and the use of the improved planning and supply chain systems led to shorter lead times and clearly contributed to notably higher service levels.

Oriflame will continue to prioritise its work to improve service and inventory levels and the overall flexibility in the supply chain.

Factories and suppliers – closer to market

Oriflame's quality assurance team works both with in-house manufacturing operations and subcontracted suppliers to achieve consistent adherence to the high quality, safety, ethical and environmental standards set by the Company, regardless of the location of the manufacturing site. Products must comply with stringent international regulatory requirements, and are extensively tested to ensure optimum safety, efficiency and quality. Oriflame has one quality standard, regardless where the product is made.

In-house production

Oriflame manufactures about 60 percent of its cosmetics product volumes in-house, and the aim is to increase this share over time. Five Oriflame-owned factories produce skincare creams and liquids, foundations, mascaras, lipsticks and lip glosses, personal care and hair care products as well as fragrances. A sixth facility manufactures food supplements for the Chinese market. In 2011, Oriflame started to plan for increased production capacity in India.

The construction work with Oriflame's new production and distribution facility in Russia, located in the Moscow region, is proceeding in line with the overall plan. The construction project is phased, with a Group distribution centre and a personal and hair care production facility to be completed in the first phase.

> ***The strategy involves cutting lead times and increasing flexibility in the end-to-end supply chain.***

External suppliers

External suppliers in the EU, Russia, the United States and Asia, produce the remaining part of the product range, including cosmetics, accessories and food supplements. Oriflame strives to source as close to its markets as possible to shorten the supply chain and increase service levels, and added a number of new suppliers at strategic locations during the year, particularly in the CIS region.

Local sourcing of accessories for sales actions and recruitment campaigns is particularly challenging as the products are selected at short notice and the suppliers are constantly changing, limiting control of content and working conditions. As a consequence, the sourcing of the products for sales actions and recruitment campaigns are being increasingly channelled through the central purchasing functions.


A-05-02
A-04-01

Logistics – striving for higher efficiency and sustainability

Oriflame has implemented a supply and sourcing strategy for logistic operations in addition to the existing ISO Cosmetic Good Manufacturing Practice Standard (GMP), integrated in Oriflame's Code of Practice. The general strategy is to move sourcing of products and printing of catalogues closer to the current and future Group distribution centre facilities and major markets, as mentioned above. The aim is to improve transportation routines and to reduce lead times and transportation costs as well as greenhouse gas emissions and energy consumption.

Oriflame favours sea shipping, truck freight and railway cargo and attempts to limit air shipments to the extent possible. Oriflame is actively exploring the "China land bridge", using train freight from China through Russia to Europe.

> ***"The use of the improved planning and supply chain systems led to shorter lead times and clearly contributed to notably higher service levels.***

Distribution – Group distribution centres serving more markets

Oriflame's strategy is to consolidate the warehouses into Group distribution centres to optimise transportation cost and reduce inventory levels with increased service levels. Consultants are served directly from the Group distribution centres whenever possible. Previously, each market has had central stockholding in local market warehouses.

Today, Oriflame operates Group distribution centres in Warsaw in Poland, serving eight markets, and in Kiev, serving Ukraine. In 2011, a new Group distribution centre was opened in Budapest, Hungary, now supplying three markets. In Moscow, a new facility for distribution, serving the large Russian market, is planned to open during 2013. Oriflame intends to establish more Group distribution centres to further improve its distribution footprint.

Read more about Oriflame's sustainability work regarding the supply chain in the section Sustainability – planet, people and community, page 42.


ORIFLAME
SWEDEN
OPTIMALS
SKIN ENERGY EYE CREAM
Radiance Boost Formula with Vitamin C
ORIFLAME
SWEDEN
OPTIMALS
SKIN ENERGY DAY CREAM SPF 15
Radiance Boost Formula with Vitamin C
ORIFLAME
SWEDEN
OPTIMALS
SKIN ENERGY NIGHT CREAM
Radiance Boost Formula with Vitamin C

SUSTAINABILITY
– PLANET, PEOPLE AND COMMUNITY

Oriflame's global reach and growth come with a duty of care to act responsibly in every way. For this reason, sustainable business practices are inseparable from the Company's future success. Whether it is reducing Oriflame's impact on the planet, pursuing ever-higher standards of social responsibility or empowering people in their communities, sustainability sits at the heart of the Oriflame philosophy.

In 2011, Oriflame again increased the pace of its efforts to integrate sustainability into all areas of its business, in line with a long-term commitment to becoming a truly sustainable company. Whilst progress has been made, Oriflame recognises that this is a long journey and there is much more still to be done.

Oriflame has published a range of commitments and targets designed to improve environmental performance. Another centrepiece of the Company's sustainability efforts is a global programme to empower children and young women through community initiatives. As part of the Company's commitment to management excellence, ethical and environmental risks have been identified and assessed.

The expectations of customers, sales consultants, employees, shareholders, civil society and the public at large are clear; they expect global companies to pursue the highest standards of social and environmental responsibility. Oriflame is determined to become a leader on that agenda.

Organising for sustainability

Oriflame's sustainability plan is overseen by the Chief Executive Officer and the Board of Directors. It is regularly updated, with new commitments added and existing standards raised. Oriflame's goal is one of continuous improvement, in co-operation with a range of external stakeholders and partners.

Moving forward, the responsibility of fulfilling Oriflame's ambitious commitments will sit firmly within every part of the organisation. Oriflame is also working on new ways to engage employees as well as its approximately 3.6 million Oriflame Consultants globally on these crucial issues. In the Company's internal education programme, the Oriflame Academy, a section dedicated to sustainability issues is now included for all levels. For key management there is also a workshop programme on the integration of sustainability into everyday business processes. This is complemented by ongoing communication through the Oriflame intranet and other channels.

At Oriflame, co-operation with non-governmental organisations (NGOs) to discuss sustainability challenges and receive regular feedback on the company's efforts is seen as vital for accountability and continuous improvement.

In 2011, Oriflame met several NGOs to listen to their opinions and ideas for further development in the area of sustainability. More dialogue will be undertaken in the coming year. This programme of stakeholder engagement is led by Oriflame's Chief Executive Officer, Magnus Brännström.

PLANET – REDUCING ENVIRONMENTAL IMPACT

In 2010, the Board of Directors decided to take another step in deepening its focus on sustainability by instigating a new corporate strategy for environmental responsibility.

It was preceded by an environmental assessment of the Company's operations. The analysis spanned all phases of the life cycle, from raw material extraction to production and disposal, focusing mainly on carbon footprint. The study identified Oriflame's most significant environmental impacts and serves as the foundation for Oriflame's environmental sustainability strategy and plan.

Four key areas

Oriflame's environmental sustainability strategy contains a series of commitments across four key areas: sustainable sourcing, climate change, water and waste. The aim is to reduce environmental impact through a number of key priorities across these areas: sourcing of sustainable natural resources, such as paper, palm oil and other ingredients; reduction of greenhouse gas emissions; reducing water consumption and emissions to water and minimising waste throughout the supply chain. In 2011, Oriflame rolled out a series of improvements designed to embed sustainability principles into every part of the business.

Product Development

To generate meaningful performance improvements, environmental sustainability must be fully integrated into the entire product development process. When formulating new concepts, Oriflame strives to design innovative products that, where possible, use ingredients with a low environmental impact that are ethically sourced. For example, all Oriflame's primary surfactants and preservatives have a good biodegradability profile and scientific reports on environmental issues are continuously monitored to ensure that action is taken to replace ingredients or packaging materials wherever possible.

With the launch of the Ecobeauty cosmetic range in late 2011, Oriflame became the first global cosmetics brand to offer products certified by four different independent organisations. The entire range is designed to be environmentally responsible – from the contents of the products to the 100-percent recyclable packaging. Fairtrade certification also ensures that specific ingredients are ethically produced.

The lessons learnt from developing Ecobeauty will be used in other Oriflame products going forward. Oriflame views Ecobeauty as an innovation

We only have one planet, which we all share, so let's take the best possible care of it. As residents of this planet, we are all a part of the wider community. At Oriflame, we have a responsibility to all the people whose lives we touch. So let's join forces to create a better world.

"laboratory" or a symbol of the company's wider commitments to implementing more sustainable business practices.

Sustainable Sourcing

The life-cycle assessment study revealed that a large proportion of the environmental impact of Oriflame's products occurs beyond the direct scope of the Company's operations. Sourcing of raw materials, such as paper and palm oil is therefore a critically important impact area.

> *"The lessons learnt from developing Ecobeauty will be used in other Oriflame products going forward.*

Paper guideline

Paper and wood-based products are Oriflame's number one raw material, used in packaging materials as well as in publications, especially catalogues. In 2010, Oriflame started working in collaboration with the Rainforest Alliance, a global conservation organisation, to develop a responsible paper sourcing strategy and set ambitious sustainability targets. A paper guideline has been rolled out to all Oriflame catalogue suppliers globally and, during 2011, data on complete catalogue paper use and statistics on sources were gathered. The next step is to implement the guidelines for main corrugated board suppliers.

The ultimate aim is to ensure that all Oriflame paper and board packaging and publications are sourced from credibly certified sources and/or from recycled origins.

Use of palm oil

Oriflame uses palm oil as an ingredient in numerous cosmetic formulations. Palm oil contributes to the economic development of the countries where it is produced. Nonetheless, there are serious environmental pressures caused by the palm oil industry's rapid expansion into eco-sensitive areas. It is vital that production and use of palm oil is conducted in a sustainable manner based on economic, social and environmental viability. Oriflame participates in the Round Table on Sustainable Palm Oil (RSPO) and has made a commitment to buying all of the palm oil consumed in the Company's products from certified sustainable sources. On the way to achieving this goal, Oriflame helps to fund sustainable palm oil production through the purchase of Green Palm certificates covering 100 percent of its total palm oil consumption. In 2011, Oriflame's palm oil approach resulted in a high score, 8.5 of 9 possible points, in WWF's Palm Oil Buyers' Scorecard, ranking European companies on their palm oil sourcing policies.

Animal Welfare

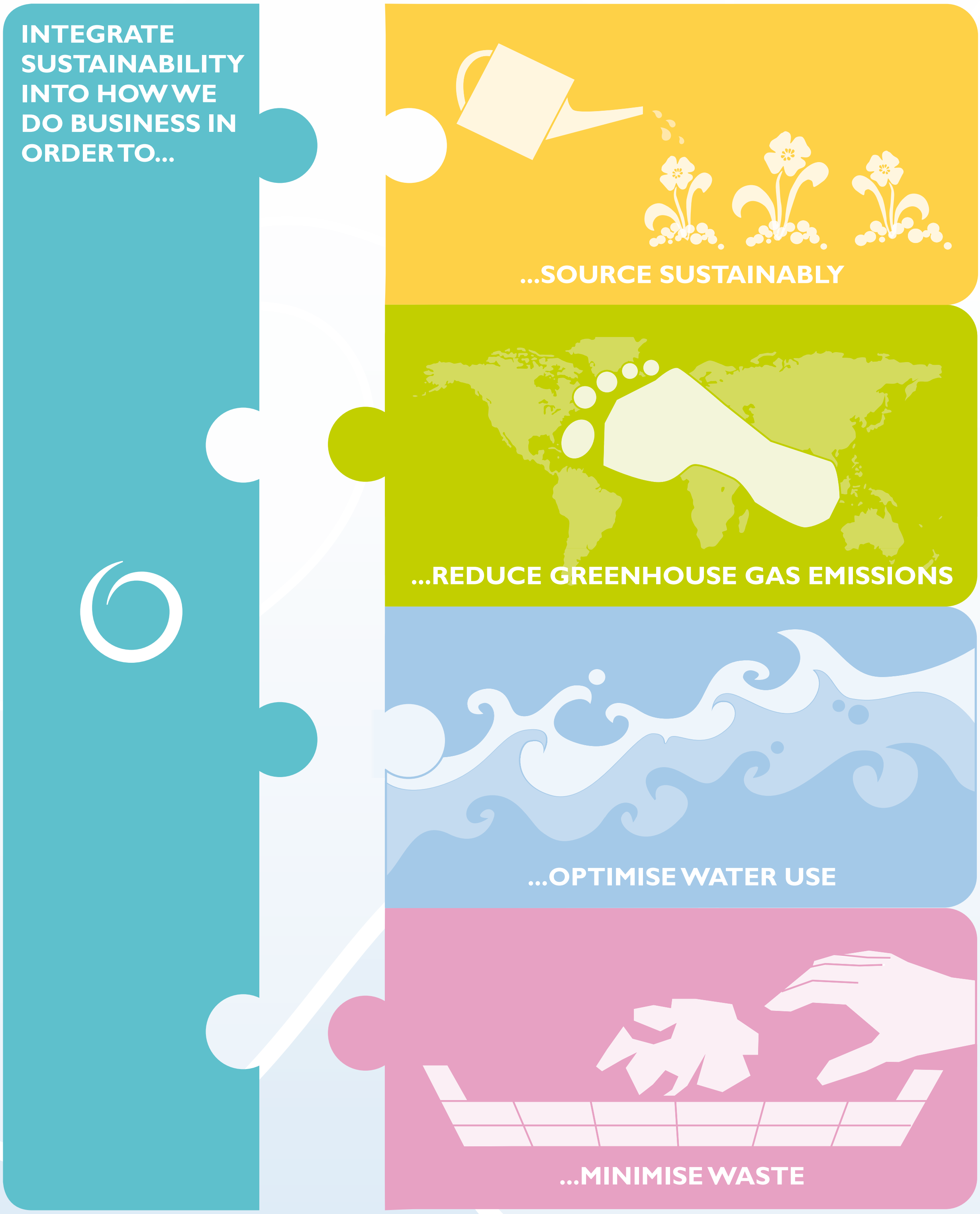
Oriflame is committed to the highest standards of animal welfare. Oriflame has never tested, nor commissioned the testing of, cosmetic ingredients or products on animals at any stage during the product development process – and never will. Oriflame must, however, abide by the laws of the countries in which it operates and some countries may require test data gained through animal testing. Where this applies, we supply complete product registration information including a full safety assessment in line with the requirements of the European Cosmetics Directive. This should negate the need for any animal testing and we try to persuade the relevant authorities to accept this data. Where we cannot do so, we must reluctantly submit the products for additional testing. We are supporting work to change local laws to bring them into closer alignment with European regulations. No Oriflame cosmetic products contain ingredients that cause suffering to animals.

Production sites and offices

Increasing the sustainability profile of Oriflame's own facilities and operations is a key priority. During 2011, a new greenhouse gas reduction target was set. This target aims to reduce Oriflame's greenhouse gas emissions by 50 percent by 2020 relative to turnover, and applies to all our own production sites, offices and logistics operations, as well as business travel.

In 2011, audits were conducted at all in-house manufacturing sites to establish improvements with regard to energy use, greenhouse gas emissions, waste control and water consumption. Each of these areas is the subject of ambitious targets to be met by 2015. For example, energy and water demand reduction initiatives have been implemented in a number of our factories with plans for further investment during 2012. We have also moved a proportion of our electricity demand to certified renewable sources in Sweden and Poland.

FOUR KEY AREAS FOR ORIFLAME'S ENVIRONMENTAL SUSTAINABILITY WORK



The new distribution and production facilities under construction in Moscow are being LEED Green Building certified prior to completion, with the aim of making them among the very few industrial projects in Russia to gain such an independent certification.

Oriflame is also implementing a strategy for improving the environmental profile of all its offices worldwide, which also is seen as a way to engage employees and consultants in the Company's sustainability work. This includes the provision of manuals for all office managers and guidelines for employees regarding energy use, recycling and other sustainability tips. A corresponding strategy for Oriflame conferences is under development.

Logistics

Oriflame's overall logistics strategy is to move the sourcing of products and printing of catalogues closer to the current and future Group distribution centre facilities and major markets. The aim is to improve transportation routes and thereby reduce greenhouse gas emissions and energy consumption.

Oriflame favours sea shipping, truck freight and railway cargo and attempts to limit air shipments to the greatest extent possible. The packaging and loading routines for ship containers and trucks are being reviewed to optimise space usage, thereby reducing energy consumption. These efforts have been successful, improving utilisation by more than 35 percent in ship containers and 15 percent in trucks.

As for truck freight, Oriflame has changed its requirements on vehicle use, aiming at Euro 4, 5 or 6 standards for all road transport whenever possible, thus reducing particle emissions. During 2011, approximately 35 percent of Oriflame's total road transport has been conducted by Euro 4, 5, 6 certified trucks. Oriflame is actively exploring the "China land bridge", using train freight from China through Russia to Europe.

PEOPLE – RESPONSIBILITY FOR CONSULTANTS, EMPLOYEES AND SUPPLIERS

Oriflame believes that corporations have the same ethical responsibilities as individuals. That is why Oriflame adheres to the Universal Declaration of Human Rights and the United Nations Global Compact. The ten principles of the Global Compact, which apply to human rights, labour standards, the environment and anti-corruption, have been integrated into the Oriflame Code of Conduct to ensure that they permeate all aspects of the business. Oriflame has a responsibility towards the people who contribute to the Company's success and whose lives are touched by its operations. This comprises Oriflame Consultants and employees as well as people working throughout Oriflame's supply chains.

Opportunities and support for Oriflame Consultants and employees

One of Oriflame's founding principles was to give people an opportunity to run their own business or earn extra income and, through this, improve their lives. Providing the opportunity to "make money today and fulfil your dreams tomorrow" includes giving Oriflame Consultants the opportunity to grow their businesses, to learn more through training and to gain support and inspiration from the Oriflame organisation. Likewise, everyone who joins Oriflame as an employee should feel empowered by a stimulating and dynamic work environment that helps them grow as people and professionals. Read more in the People & Culture section, page 32.

Suppliers

In 2011, Oriflame's supplier requirements were reviewed and a new comprehensive Supplier Code of Conduct was developed. This code will be rolled out to suppliers during 2012. Through audits and close co-operation with suppliers, Oriflame works to ensure that labour standards and principles are adhered to. Besides Oriflame's own guidelines, the ISO 26000 Social responsability standard is used as a basis for audits performed. For non-cosmetic suppliers, Oriflame works in co-operation with well-established trading houses that conduct annual audits of their subcontractors. In addition to these audits, Oriflame conducts audits to "check the auditor" to ensure compliance to Oriflame's Supplier Code of Conduct and that necessary actions are taken for any non-conformance. Oriflame has staff located in China dedicated to conducting audits of working conditions as well as environmental matters. During 2011, Oriflame audited approximately 10 percent of non-cosmetics suppliers, the target is to increase this to 25 percent for 2012.

COMMUNITY INVOLVEMENT – EMPOWERING PEOPLE

As well as providing employment and a business opportunity, Oriflame also has a long history of contributing to the communities in which it operates by supporting good causes on a local, regional and global level.

The Oriflame Foundation

For many years Oriflame has strived to support NGOs and charities around the world. These include the World Childhood Foundation, founded by HM Queen Silvia of Sweden and co-founded by Oriflame and the Af Jochnick Foundation, a relationship that continues to this day.

In order to reach its full potential, all of Oriflame's community work is now being managed under one umbrella – the Oriflame Foundation. Co-ordinating all the community investment activities in this way allows for improved collaboration between the different projects and an increase in the overall level of community investment across different markets. Besides the fundraising conducted at regional level, the Company also supports the Oriflame Foundation to run global projects and supplement regional efforts.

Focus on education

Oriflame seeks to contribute to efforts and projects that create long-term positive impacts for people and their communities. Providing education is perhaps one of the most effective ways of doing this. Thus, the primary mission of Oriflame's community involvement is to help children and young women through a wide range of educational initiatives, providing opportunities for them to change their lives for the better and empowering them to fulfil their dreams. This firm conviction to supporting self-help is the guiding principle of Oriflame's community involvement, and is also in line with the Company's business model.

Efforts are focused on various activities, also beyond traditional class-room-based education; from building social skills and mentoring to supporting orphans and foster families. Examples of existing projects are Oriflame's Contemporary Girls' Initiative in Turkey to help young girls complete their secondary education, and social rehabilitation for teenagers in Latvia through the Livslust Foundation.

Partnerships with selected organisations

To identify the right projects to support, the majority of Oriflame's markets are working with carefully selected NGO partners. These not only have extensive experience of developing and running successful education-based initiatives, but also share Oriflame's aims and values. By working together with professional and experienced partners, the impact of philanthropic efforts can be maximised.

In many of its markets, Oriflame has partnerships with SOS Children's Villages, an international social development organisation that focuses on family-based, long-term care of children who can no longer grow up with their biological families. One such example is the co-operation with SOS Children's Villages in Latin America, which includes all markets and has led to successful fundraising and a high level of involvement from both Oriflame Consultants and employees.

Volunteering and fundraising

To support communities, Oriflame's employees and Consultants are encouraged to engage in local volunteering projects and each employee is offered one day per year of paid leave to do volunteer work for good causes in their markets. Volunteering initiatives can range from different types of community service activities to fundraising. All Oriflame's markets have local volunteering initiatives, which are run in conjunction with the markets' local NGO partners or as bespoke projects developed by the market themselves.

Oriflame supports projects in different markets through the sale of regionally selected cosmetic products and specially developed accessories. This is supplemented by local fundraising events organised by Oriflame employees and Consultants.

Collaborations

Oriflame takes a strong stance on social and ethical issues. In 2009, Oriflame decided to support the United Nations Global Compact. Although it is voluntary, it is the largest corporate citizenship and sustainability initiative in the world.

Being fair and ethical is a fundamental part of how Oriflame does business. By choosing certified Fairtrade ingredients for the Ecobeauty range, the Company is not only helping to create opportunities for farmers in developing countries to improve their working and living conditions, but also contributing to society through investments in schools, healthcare and water supply.

Oriflame's first charity ambassador

In 2011, top seeded Danish tennis star Caroline Wozniacki became Oriflame's first charity ambassador, as an extension of the co-operation between the Company and the Women's Tennis Association. As a young woman who has used the opportunities available to her to fulfil her dreams, she personifies what Oriflame's community involvement stands for and is an inspiration to many. Caroline Wozniacki supports the Oriflame Foundation's mission for community involvement globally, taking part in awareness and fundraising activities, including visits to Oriflame's local charity partners. She is also promoting the iconic Oriflame Foundation bracelet.

ORIFLAME'S ENVIRONMENTAL COMMITMENTS

As part of its renewed sustainability strategy, Oriflame has defined an initial series of commitments across its key impact areas. During 2011, these were rolled out globally across the business. Oriflame reports regularly on its progress in meeting these commitments and will add new commitments and target in the years ahead.

SUSTAINABLE SOURCING

THE ISSUE

Sourcing of raw materials is of fundamental importance to Oriflame. As a Company that prides itself on the use of natural ingredients, the Company is taking action to better manage natural resources and significantly lower its ecological footprint.

COMMITMENT	PROGRESS
Palm oil: Purchase all our palm oil from certified sustainable sources, initially through the purchase of green palm credits and ultimately through certified segregated sources.	**On track.** Green palm credits purchased to cover our full 2011 volume. Oriflame is an active member of the RSPO and continues to focus on sourcing segregated sustainable palm oil.
Paper: Source 75% of the wood fibre used in our publications and our paper and board packaging from credible certified sources and/or recycled origin by 2015. By 2020, our goal is 100%.	**On track.** After a baseline analysis of our catalogue suppliers with the help of the Rainforest Alliance, our suppliers reported that approx. 80% of their paper is from certified sources. According to definitions in our paper commitment, 55% of our paper is actually compliant and we are on track towards our 2015 goal. We keep working to ensure that all our paper is proven acceptable by our policy with intact chain of custodies.
Animal Welfare: Never use ingredients in our cosmetics formulations derived from dead animals or which cause harm or suffering to animals.	**On track.**
Packaging: By year-end 2011, all newly specified cosmetic display packaging cartons and leaflets will be FSC-certified.	**Completed.** All new cartons now specify FSC-certified cardboard. Cartons will start to be labelled with the FSC logo during 2012.
Source 75% of all our display packaging cartons and leaflets from FSC-certified sources by 2013.	**New.**

CLIMATE CHANGE

THE ISSUE

Climate change is one of the most serious issues facing the world. During the coming years, it will have a growing impact on society in general and on businesses, including Oriflame. Our business operates in some of the regions of the world most exposed to climate risk. Our operations impact on the world's climate in a multitude of ways; through manufacturing, transportation and travel. We measure and report on our greenhouse gas emissions annually via the Carbon Disclosure Project and have built an understanding of where our greatest impacts lie. We are now taking action to reduce our carbon footprint through a number of initiatives across the business.

COMMITMENT	PROGRESS
Greenhouse Gas Emissions: Reduce emissions from our factories by 20 % by 2015 (per unit produced based on the 2010 baseline).	**On track.** Greenhouse gas emissions per unit increased slightly due to a drop in units produced. In absolute terms, a decrease of more than 5% was achieved.
During 2011, present new greenhouse gas reduction targets with a wider scope than current manufacturing targets.	**Completed.** During 2011, Oriflame took the decision to adopt a new carbon reduction target that covers all offices, warehouses and manufacturing sites, as well as travel and transportation.
Reduce greenhouse gas emissions from global Oriflame operations by 50% by 2020 (relative to turnover, 2010 baseline).	**New.**
Energy Use: Reduce energy use at our factories by 15% by 2015 (per unit produced based on the 2010 baseline).	**On track.** Energy use per unit increased slightly due to a drop in units produced. In absolute terms, a decrease of more than 5% was achieved.
Travel: By year-end 2011, an online communication tool will be rolled out to all office employees to help reduce travel.	**On track.** An online tool has been rolled out to all relevant employees. Training will continue on an on-going basis to ensure usage is optimised.
LEED certification: Reduce future greenhouse gas emissions at our new facilities by pursuing LEED green building scheme certification for all our new production facilities.	**On track.** We are currently attempting to LEED-certify the Noginsk Facility under construction outside Moscow.

THE ISSUE

The majority of Oriflame's products contain significant amounts of water and the Company relies on water at all stages of the manufacturing process. With operations in countries where water stress is a major issue, such as India and China, Oriflame is committed to responsible water stewardship. In addition at the end of their useful life a large percentage of our products will end up in the local sewage system. Reducing water use and emissions to water are therefore key priorities for Oriflame.

COMMITMENT	PROGRESS
Responsible Water Use: Reduce water use at our factories by 10% by 2015 (per unit produced based on the 2010 baseline).	**On track.** Water consumption per unit increased by 10% due to the installation of new processing vessels combined with a drop in total units. However, in absolute terms, total water consumption was marginally reduced.
Biodegradability: To reduce environmental impact at the product end-of-life, only use readily biodegradable primary surfactants and primary conditioning agents in our cosmetic formulations.	**On track.**
Education: To reduce environmental impact during the use phase and at the end-of-life, we will start to communicate with our 3.6 million Oriflame Consultants on issues relating to water consumption and pollution.	**Late but now on track.** Initiatives to educate consultants are being launched through information in service centres. In connection with the launch of the Ecobeauty range, this will be rolled out in other channels.
LEED Certification: Reduce water use and emissions to water at our new facilities by adopting new manufacturing systems design and pursuing LEED green building scheme certification for all our new production facilities.	**On track.** We are currently attempting to LEED-certify the Noginsk Facility under construction outside Moscow.

THE ISSUE

Oriflame is committed to minimising the waste produced throughout its supply chains. Product packaging makes up a significant proportion of generated waste, and several initiatives are therefore underway to address this. Our aim is to reduce waste by using materials more efficiently, by reusing materials where possible and by contributing to increased recycling, both within our own operations and among our consumers.

COMMITMENT	PROGRESS
Manufacturing waste: Reduce waste at our factories by 10% by 2015 (per unit produced based on the 2010 baseline).	**On track.** Waste produced per unit increased slightly due to a drop in units produced. In absolute terms, total solid waste generation was reduced by over 10%.
Recycled Plastic: Increase the use of post-consumer recycled plastic (PCR) in our cosmetic packaging materials. In 2011, all new coloured PET bottles will specify PCR material.	**On track.** PCR content has been introduced in all new PET bottles, for example the new Pure Nature bottles now contain 100% PCR material. Roll-out will continue with further bottles and also tubes and jars.
Education: To encourage end-of-life recycling of our packaging materials and catalogues, we will start to communicate with our 3.6 million Oriflame Consultants on environmental issues relating to waste.	**Late but now on track.** Initiatives to educate consultants are being launched through information in service centres. In connection with the launch of the Ecobeauty range, this will be rolled out in other channels.
Facilitate recycling: Increase the availability of recycling facilities at our service centres worldwide, as part of the roll-out of the upgrade of our service centres starting 2011.	**On track.** During autumn 2011, we launched a guide to green offices and service centres. In connection with this, the roll out of recycling facilities in service centres started.
LEED certification: Reduce construction waste at our new facilities by pursuing LEED green building scheme certification for all our new production facilities.	**On track.** We are currently attempting to LEED-certify the Noginsk Facility under construction outside Moscow.


ORIFLAME
SWEDEN
ecobeauty
Contains Fairtrade Ingredients
FAIRTRADE
hand cream
℮ 75 ml 2.5 fl.oz.
ORIFLAME
SWEDEN
ecobeauty
Contains Fairtrade Ingredients
FAIRTRADE
shower gel
℮ 200 ml 6.6 fl.oz.

ECOBEAUTY FOR A BEAUTIFUL PLANET

Oriflame now offers a range of cosmetic products with the highest natural, ethical, social and environmental standards. In November 2011, Oriflame launched the brand Ecobeauty, becoming the first global cosmetics brand to offer a cross category range certified by four independent organisations.

Ecobeauty includes a broad range of cosmetics with a minimum of 95 percent of ingredients from traceable, renewable and sustainable sources. The line is completely free of any animal-derived substances, parabens, silicone, mineral oils or synthetic fragrances. The entire range is made to be environmentally responsible – from the contents of the products to the 100-percent recyclable packaging materials. Ecobeauty is initially launched with a skincare range, and will be followed up with other categories.

Supporting local initiatives by Fairtrade

Oriflame collaborated closely with the Fairtrade organisation to achieve new standards for cosmetic companies. Ecobeauty is the first cross category cosmetics range to be certified by Fairtrade.

By purchasing through Fairtrade-certified sources, Oriflame supports local communities to improve the lives of local farmers. In Burkina Faso, a women's cooperative is guaranteed not only a fair price for its shea butter but also a Fairtrade Premium used to develop the local community. In Kerala, a southern Indian state, Oriflame, through Fairtrade, supports local coconut oil farmers, providing steady income, sustainable business opportunities and improved working conditions.

To Oriflame, the launch of Ecobeauty is another step in the Company's efforts towards more sustainable operations in relation to the environment, as well as supporting people and the communities. It is also a way of meeting an increased demand for selling cosmetic products with high ethical and environmental standards.

Certified by four organisations

The international organisations that have certified the Ecobeauty series are Fairtrade, Ecocert, Vegan and FSC.

Fairtrade – Enables farmers and workers in developing countries to improve their living conditions and encourages environmental protection.

Ecocert – Guarantees optimal use of natural ingredients and a minimum of synthetics, and promotes the use of ingredients from Organic Farming.

Vegan – Represents a product that is free of ingredients derived from animals and is not tested on animals, helping you to make the ethical choice.

FSC – Certifies that the paper comes from responsibly managed forests.

STATEMENT
FROM THE CHAIRMAN

A year of hard work

2011 was a challenging year for Oriflame but also a year of continued progress and long term investments. We have yet to see an end to the global economic turbulence, which is also expected to impact demand in 2012. However, I am proud that Oriflame is well-prepared to assert itself moving forward. We have a strong product range, an attractive consultant offering, passionate people and an effective infrastructure – and above all, we are active in a number of attractive growth markets.

During the year management has worked hard and achieved to strengthen many of the key areas of the Company, such as the supply chain. This is an important basis for implementing our strategic initiatives for long-term, profitable and responsible growth. Oriflame also successfully completed two major refinancing projects and thus cemented its strong and secure financial position to support further growth.

> ***“Our success is based on individuals and their initiatives, partnerships and passion, particularly in times of intensified competition.***

Corporate responsibility a key to strong and consistent branding

Since its inception 45 years ago, Oriflame has offered millions of people, mainly women, a safe and transparent opportunity to earn extra money. For many, Oriflame is also an opportunity to create financial security for themselves and their families in countries where finding employment is often challenging.

In 2011, Oriflame took several additional steps in its sustainability efforts from a broader perspective – although a great deal remains to be done to achieve our objectives. There has been a sharp focus on the environmental area following the adoption of a new environmental strategy, including goals for key areas, in 2010. As of 2011, we are reporting our achievements in these areas more clearly. Within the framework of Oriflame's community involvement, we have intensified our partnership with the organisation SOS Children's Villages, with considerable support from both employees and Oriflame Consultants.

Employees are the key to success

We continue to view the development and expansion of the Company's responsibility as a challenge – and perhaps the most important one we face. This is because we believe that, as a company, we bear an obvious responsibility for the environment and individuals that are impacted by our operation, and for society at large. It is also because we believe that talented, creative and ambitious employees and consultants want to evolve in a corporate culture in which responsibility is a natural and credible component.

Oriflame's strength – from its beginnings as a small Swedish company to the listed global company it is today – is its ability to attract and energize employees with a sense of enterprise and commitment to the Company's development. We also view this as a key to Oriflame's performance moving forward. Our success is based on individuals and their initiatives, partnerships and passion, particularly in times of intensified competition in a market characterised by economic uncertainty.

On behalf of the entire Board, I would like to express my gratitude to Oriflame's management and employees for contributing to creating an even stronger company in 2012. We look forward to a new and exciting year of inspirational partnerships.

Robert af Jochnick
Chairman

Jonas af Jochnick, member of the Board and co-founder

Robert af Jochnick, Chairman of the Board and co-founder

KEY FIGURES

Two-year record

€ million unless stated otherwise	2011	2010
Sales	1,493.8	1,513.6
Gross profit	1,014.8	1,002.5
Gross margin, %	67.9	66.2
EBITDA	182.2	[1] 184.4
Adjusted operating profit	[2] 164.1	[1] 168.1
Adjusted operating margin, %	[2] 11.0	[1] 11.1
Adjusted net profit	[2] 105.7	[1] 128.3
Return on capital employed, ROCE, %	29.5	34.4
Cash flow from operating activities	135.3	94.8
Cash flow from operating activities, per share, €	2.37	1.66
Equity/assets ratio, %	27.0	29.8
Net interest-bearing debt	[3] 232.9	[3] 200.5
Interest cover	6.1	5.6
Adjusted earnings per share, diluted, €	[2] 1.86	[1] 2.26
Closing sales force ('000)	3,610	3,767
Average sales force ('000)	3,599	3,515
Average number of full-time equivalent employees	7,898	8,353

1) Adjusted operating profit and adjusted operating margin are calculated before restructuring costs in the EMEA region of €0.7m and the effect on operating profit from the Iran impairment of €10.1m.

2) Before restructuring costs €5.9m.

3) Net interest-bearing debt includes US Loan fair value. The net interest-bearing debt at hedged values would be €195.1m (31.12.2011) respectively €195.4m (31.12.2010).

Definitions

Capital employed
Total assets less non interest-bearing liabilities, including deferred tax liabilities.

Cash flow from operating activities
Operating cash flow after interest received, interest and bank charges paid and after income taxes paid.

EBITDA
Operating profit before financial items, taxes, depreciation, amortisation and share incentive plan.

Interest cover
Operating profit plus interest income divided by interest expenses and charges.

Net interest-bearing debt
Interest-bearing debt excluding front fees minus cash and cash equivalents.

Operating capital
Total assets less cash and cash equivalents and non interest-bearing liabilities, including deferred tax liabilities.

Return on capital employed
Operating profit plus interest income divided by average capital employed.

Return on operating capital
Operating profit divided by average operating capital.

Quarterly figures

	2010				2011			
Sales, €million	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
CIS & Baltics	205.1	208.0	187.3	260.6	230.6	200.3	166.6	228.7
EMEA	98.3	100.5	90.4	118.7	106.8	105.6	93.3	115.0
Latin America	17.4	22.4	22.0	22.4	19.7	21.1	24.5	21.9
Asia	36.3	39.2	33.7	34.5	35.5	36.2	34.3	40.0
Manufacturing	1.6	1.1	0.5	1.1	1.6	0.5	0.3	0.2
Other	3.2	3.8	2.7	2.8	2.6	3.0	2.6	3.0
Oriflame	**361.9**	**375.0**	**336.6**	**440.1**	**396.8**	**366.7**	**321.6**	**408.7**

Adjusted operating profit, €million	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
CIS & Baltics	31.3	30.3	23.6	49.8	33.5	33.4	25.0	41.8
EMEA	10.7	13.9	9.7	19.8	14.3	16.3	11.2	19.4
Latin America	0.4	0.8	0.9	0.9	(0.0)	0.6	2.2	1.8
Asia	1.2	2.8	2.2	3.8	0.1	2.5	1.8	5.6
Manufacturing	1.3	4.1	4.9	3.9	1.2	2.6	1.3	(0.8)
Other	(2.9)	(14.0)	(14.2)	(17.2)	(2.4)	(17.0)	(14.8)	(15.6)
Oriflame	**42.2**	**37.9**	**27.1**	**61.0**	**46.7**	**38.4**	**26.7**	**52.2**

Average sales force, '000	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
CIS & Baltics	2,081	2,135	2,016	2,176	2,306	2,221	1,979	1,938
EMEA	813	818	777	796	874	892	831	843
Latin America	137	153	153	151	148	165	165	167
Asia	466	470	442	431	468	475	461	445
Oriflame	**3,497**	**3,576**	**3,388**	**3,554**	**3,796**	**3,753**	**3,435**	**3,393**

A number of factors impact sales and margins between quarters:
- The effectiveness of individual catalogues and product introductions
- Effectiveness of recruitment programmes
- Timing of sales and marketing activities
- The number of effective sales days per quarter
- Currency effect on sales and results

THE ORIFLAME SHARE

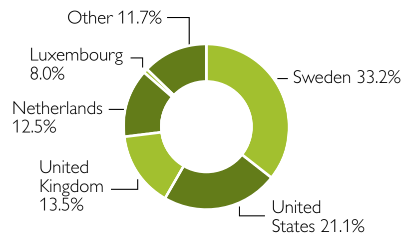
Oriflame Cosmetics was introduced on the NASDAQ OMX Nordic Exchange on 24 March 2004 through an initial public offering of Swedish Depositary Receipts (SDRs). On 31 December 2011, the number of shareholders and SDR holders was 7,672. Each SDR represents one share. The last price paid on 30 December 2011 was SEK 217.40, giving Oriflame a total market capitalisation of SEK 12.4 billion. During 2011, an average of 276,309 shares were traded per day on the NASDAQ OMX Nordic Exchange. Oriflame's share capital amounts to EUR 71,301,418 divided by 57,041,134 shares.

Oriflame Cosmetics top 10 shareholders as at 31 December 2011

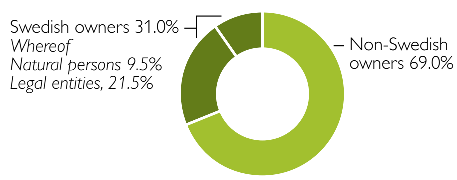
Oriflame Cosmetics top 10 shareholders	Shares	Share of capital, %
Lazard Asset Management LLC	6,850,746	12.0
Stichting af Jochnick Foundation	6,327,001	11.1
Robert and Alexander af Jochnick and family	4,892,735	8.6
JP Morgan Asset Management Ltd	4,470,312	7.8
Jonas af Jochnick and family	4,303,500	7.5
Baillie Gifford & Co	2,472,512	4.3
Swedbank Robur Fonder AB	2,128,594	3.7
Cantillon Capital Management LLC	1,895,440	3.3
Norges Bank Investment Management	1,472,633	2.6
Financière de l'Échiquier SA	1,388,600	2.4
Other	20,839,061	36.7
Total shares outstanding	**57,041,134**	**100.0**

Source: Capital Precision and disclosure notice received by Oriflame Cosmetics

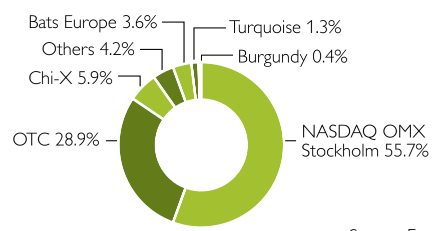
Geographic distribution of shareholders



Distribution of shareholder-type

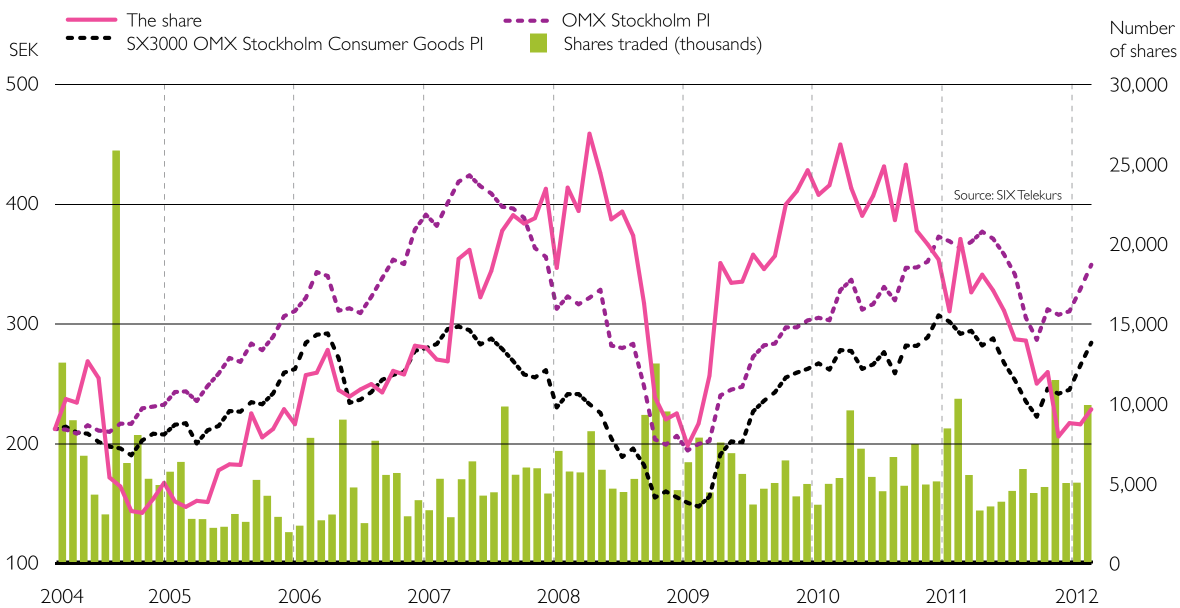


Share of turnover 2011



Source: Euroclear

Share price



Ownership structure as at 31 December 2011

Shareholding	Number of shareholders	%	Number of shares	%
1 – 1,000	7,104	88.4	1,308,796	2.3
1,001 – 10,000	637	7.9	2,012,920	3.5
10,001 – 50,000	149	1.9	3,467,551	6.1
50,001 – 500,000	127	1.6	19,994,456	35.1
500,001 – 1,000,000	9	0.1	6,111,526	10.7
1,000,001–	11	0.1	24,145,885	42.3
Total	**8,037**	**100**	**57,041,134**	**100**

Source: Euroclear and share register

Dividend policy and dividend proposal

The Board of Directors has adopted a dividend policy to the effect that, absent changes in the Company's operations or capital structure, Oriflame intends to distribute, over the long term, at least 50 percent of the Company's annual profit after tax as dividends. For 2011, the Board of Directors proposes to the Annual General Meeting a distribution of €1.75 (€1.50) per share, corresponding to 94 percent of adjusted net profit. The last day of trading including right to dividend is 21 May 2012 and payment of cash dividend will occur through Euroclear on or about 29 May 2012.

History of share capital

The table below presents the changes in the Company's share capital since 2006. Documents pertaining to the changes in Oriflame's share capital prior to and during this period may be consulted at the Luxembourg Register of Commerce and Companies:

Year	Transaction	Change in numbers of shares	Change in share capital €'000	Total number of shares	Total share capital €'000
2006 (1)	Cancellation of redeemed shares	(3,813,304)	(4,766)	55,669,886	69,588
2007 (2)	New issue	71,828	90	55,741,714	69,678
2008 (3)	New issue	551,601	689	56,293,315	70,367
2009 (4)	New issue	521,343	651	56,814,658	71,018
2010 (5)	New issue	165,569	207	56,980,227	71,225
2011 (6)	New issue	60,907	76	57,041,134	71,301

(1) On 30 October 2006 the Company cancelled 3,813,304 shares, which were redeemed during the summer of 2006.
(2) New issue of shares relating to the 2007 share incentive program.
(3) New issue of shares relating to the 2008 share incentive program and vesting of the 2005 share incentive plan.
(4) New issue of shares relating to the 2009 share incentive program and vesting of the 2006 share incentive plan.
(5) New issue of shares relating to the 2010 share incentive program and vesting of the 2007 share incentive plan.
(6) New issue of shares relating to the 2011 share incentive program.

Analysts following Oriflame

Andreas Lundberg	ABG Securities
Niklas Ekman	Carnegie
Daniel Ovin	Chevreux
Alex Molloy	Credit Suisse
Ole-Andreas Krohn	DnB Nor Markets
Anders Hansson	Danske Bank
Stefan Lycke	Deutsche Bank
Erik Sandstedt	Handelsbanken
Céline Pannuti	J.P. Morgan Cazenove
Ankur Gupta	J.P. Morgan Cazenove
Erik Sjögren	Morgan Stanley
Guillaume Delmas	Nomura
Stellan Hellström	Nordea
Sergej Kazatchenko	Pareto Öhman
Stefan Nelson	SEB Enskilda
Christian Anderson	Swedbank

Share trade

A total number of 70 million shares where traded on NASDAQ OMX Stockholm during 2011, accounting for 56 percent of total turnover in the share. Oriflame's share is also traded in marketplaces outside of NASDAQ OMX Stockholm such as Chi-X, Bats Europe, Turquoise and Burgundy.

Share data

Listing	NASDAQ OMX Stockholm
No of shares outstanding	57,041,134
EPS per share	€1.75
Dividend per share	€1.75
Market capitalization at December 31st 2011	SEK 12.4 billion
Ticker code	ORI SDB
ISIN-code	SE0001174889

DIRECTORS' REPORT

The directors present their Annual Report and the audited financial statements of Oriflame Cosmetics S.A. ("the Company") and its subsidiaries (together "the Group") for the year ended 31 December 2011.

The Chairman's letter, the CEO statement and the Corporate Governance report as well as the report on internal control and monitoring on pages 54, 8, and 61–67 all form part of this report.

Business review

The Chairman's letter and the CEO statement on pages 54 and 8 include a fair review of the development of the activities of the Company and its subsidiaries over the year and likely future development of the activities.

Key performance indicators

The key figures of the performance of the Group can be found on page 56–57 of this Annual Report.

Activities in the field of research & development

In 2011, the Group increased its R&D expenses by 2 percent to €11.5 million compared to €11.3 million in 2010.

Capital structure and shareholding

Details of the capital structure of the Company can be found in note 19 and on pages 58–59 of this Annual Report.

Restrictions on the transfer of securities or on voting rights

Oriflame Cosmetics was introduced on the NASDAQ OMX Nordic Exchange on 24 March 2004 through an initial public offering of Swedish Depositary Receipts (SDRs). Each SDR represents one share and each share represents one vote.

As per the Articles of Association of Oriflame Cosmetics S.A. there are no restrictions in regards to transfer of shares or SDRs.

Agreements between shareholders

As of 31 December 2011, Oriflame Cosmetics S.A. was not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or affect their voting rights.

Related parties

Information about related parties can be found in note 24 of this Annual Report.

Significant direct and indirect shareholdings

During 2011, the Company held none of its own shares.

Employee share scheme

Details of the long-term incentive plans for the Group's key management can be found in note 23 – "Equity compensation plans" of the consolidated financial statements.

Board matters

Details of rules governing the appointment and replacement of Board members and the amendment of the Articles of Association as well as the power of the Board members can be found in the section Corporate Governance report on pages 61–65.

The Board has, by resolutions passed at the 2008, 2010 and the 2011 AGM/EGMs, been authorised by the shareholders to issue up to 4,800,000 shares under the outstanding share incentive plans as follows: By the issue of up to 2,100,000 shares to persons exercising their rights under the 2008 share incentive plan for a period ending five years after 19 May 2008, and by the issue of up to 2,700,000 shares to persons exercising their rights under the 2011 share incentive plan for a period ending five years after 19 May 2011.

During 2011, the Board has issued a total of 60,907 shares under the outstanding share incentive plans, and since 2008 a total of 348,573 shares. Further details about share issuance under the Company's share incentive plans are found in note 23 – "Equity compensation plans" of the consolidated financial statements.

Employment agreements

Under current contract terms, no compensation is provided for employees of the Group who resign except as follows: In connection with the 2007 restructuring, employees who chose to accept to relocate to other offices within the Group were offered a redundancy package that would be partly payable also if the employee themselves chose to resign during the five years following the restructuring.

In terms of dismissal by the employer, no contract stipulates any severance except as follows:

- Executive Vice Presidents and up are entitled to additional severance if they have been employed in the Group for more than 10 years and/or are above 45 years of age;
- As part of the 2007 restructuring;
- As part of a non-competition obligation, such non-competition obligation and related severance being exercisable in the sole discretion of the employer.

Contractually an employee is also entitled to their notice period. By law, the Group entities are normally also required to provide statutory payments depending on the length of service. If an employee is made redundant or dismissed without a valid reason, there is a risk that the individual can bring a legal claim against the company for damages. This is not stipulated in the employment contracts but is established by law. None of the Group's contracts stipulate or provide for employment which has been terminated due to a takeover bid; local law will stipulate the requirements the employer must follow in such circumstances.

Principal risks and uncertainties

Details of principal risks and uncertainties can be found on page 66 in the Internal Control Report and in note 28 – "Financial instruments and financial risk management" of the consolidated financial statements. In terms of going concern, the Group's own cash flow should together with existing facilities secure the Company's financing needs for the foreseeable future.

Subsequent events since the end of the financial year

No significant events have occurred since the end of the financial year.

CORPORATE GOVERNANCE REPORT

Corporate governance, management and control of the Oriflame Group is apportioned between the shareholders/SDR holders at the General Meetings of shareholders ("General Meeting(s)"), the Board of Directors (the "Board"), its elected committees and the Corporate Officers in accordance with Luxembourg law, Oriflame's Articles of Association together with the Board and Officer Instructions. Oriflame complies with the Swedish Code of Corporate Governance* (the "Code") to the extent that the Code is not in conflict with Luxembourg law or regulations.

This Corporate Governance Report has been reviewed by Oriflame's auditors. As most EU corporate governance codes, the Swedish Code sets out recommendations rather than mandatory rules. The Code is based on the principle of "comply or explain", where deviations from the Codes recommendations are to be reported and explained in the Corporate Governance report. Oriflame's deviations are reported under the heading "Comply or Explain".

Comply or Explain

According to the Code, the Nomination Committee is to make recommendations on audit fees. The Nomination Committee has resolved not to propose the Auditor's remuneration to the Annual General Meeting as this is not a matter for General Meetings under the Articles of Association of the Company or under the laws of Luxembourg.

Oriflame does not host its General Meetings in the Swedish language as it is a Luxembourg Company, the location for Oriflame General Meetings is Luxembourg and as the majority of voting rights are held by individuals and entities located outside Sweden. General Meetings are therefore hosted in English.

General Meetings

In accordance with Oriflame's Articles of Association, the Annual General Meeting (AGM) of Oriflame shall be held on 19 May of each calendar year, or the next following weekday should 19 May be a holiday or weekend.

At the General Meetings, being Oriflame's highest decision making forum, resolutions are passed with respect to adoption of the profit and loss account and balance sheet as well as the consolidated income statement and consolidated statement of financial position; dispositions of Oriflame's profit and loss according to the adopted balance sheet; discharge from liability for the Board members and Auditor; election of Board members and certain other matters provided by law and the Articles of Association. In accordance with Luxembourg law, any changes to the Articles of Association needs to be approved by an Extraordinary General Meeting (EGM), which is why the Company sometimes hosts an EGM in connection with the AGM.

A shareholder may attend and vote at General Meetings in person or by proxy. A SDR holder who has been duly registered as such with the Swedish Securities Register Centre (Euroclear) may attend the meeting in person, but may only vote by proxy. SDR holders can convert their SDRs into shares if they wish. More information about conversion can be found on www.investors.oriflame.com. A SDR holder wishing to attend a General Meeting must notify Oriflame of his/her intention to attend. The manner in which to notify Oriflame and in which to issue proxy cards is described in the notice convening the General Meeting.

The General Meetings offer shareholders and SDR holders the opportunity to raise matters and questions concerning Oriflame and the results of the year under review, whereby shareholders and SDR holders are entitled to have matters considered at the General Meetings. To ensure inclusion in the convening notice, a request for a matter to be raised must have reached Oriflame (corporate.governance@oriflame.com) at the latest seven weeks before the General Meeting. Notice to convene the General Meeting shall be submitted by Oriflame at the earliest six and at the latest four weeks before the meeting.

The location for Oriflame General Meetings is Luxembourg. Oriflame does not enable for participation in General Meetings at a distance. Oriflame did however, in order to compensate for the above and in light of being listed on the NASDAQ OMX Nordic Exchange, host a shareholders' day in Stockholm on 5 May 2011 where shareholders/SDR holders had the opportunity to meet with members of the Board and Management and to ask questions related to the Annual General Meeting. In advance of the Annual General Meeting 2012 such shareholders' day will be held on 2 May 2012 (exact time and location will be announced in connection with the notice to the Annual General Meeting and will be posted under the Investor section on Oriflame's corporate web site).

Board of Directors

In accordance with Luxembourg law, the Board is responsible for the management of the Company's affairs. The Board also monitors the performance of the obligations of the CEO, CFO and COO, is responsible for ensuring that the Company's organisation fulfils its purpose, and conducts continuous evaluations of the Company's procedures and guidelines for management and investment of the Company's funds.

The Board has established rules of procedure which set forth how and when the Board convenes, and include instruction for the allocation of duties and responsibilities within and between the Board and the CEO, the CFO and the COO. The rules of procedure also contain instructions for financial reporting and set forth how reporting to the Board is to proceed. During 2011, the Board reviewed and revised the rules of procedure for the Board as well as the instructions for the CEO, CFO and COO.

At the 2011 Annual General Meeting a nomination process was adopted for the election of Nomination Committee members, whose task is to prepare and submit proposals to the Annual General Meeting for the election of the Board members and the size of the fees paid to Board members and other Committees of the Board (currently being the Audit Committee and Remuneration Committee).

Although Luxembourg law and Oriflame's Articles of Association permit a Board member to remain in office for up to six years, Oriflame's Board members are appointed by the Annual General Meeting for a term of one year at a time. If a vacancy arises during the course of the financial year, the Board is entitled to elect a replacing Board member to fill the vacancy for the period until the next Annual General Meeting of the Company.

In accordance with Oriflame's Articles of Association, the Board shall consist of not less than three, and not more than ten, Board members without deputies. Currently, the Board consists of nine members. The Board consists of principal shareholders and persons independent of such shareholders. The CEO is also a member of the Board. Remuneration to the Chairman of the Board and the Board members is determined by resolution adopted by the Annual General Meeting. The 2011 Annual General Meeting resolved, as suggested by the Nomination Committee, that the remuneration would be changed insofar that the annual remuneration paid to each respective non-executive board director would be increased, from €25,000 to

* The Swedish Code of Corporate Governance as first published in December 2005, including any amendments and instructions issued by the Swedish Corporate Governance Board up until 31 December 2011.

€27,500. The Annual General Meeting further approved, as suggested by the Nomination Committee and as the previous three years, that the remuneration to the Chairman of the Board would remain unchanged at €62,500 and to allocate €10,000 to each member of the Audit Committee and €5,000 to each member of the Remuneration Committee.

According to the rules of procedure, the Board shall convene at least four times per year, of which at least one meeting is to focus on business strategy issues. During the financial year 2011, Oriflame held fifteen Board meetings, out of which one was a two-day strategy meeting. Secretary at the meetings is the Group Legal Director, Pontus Andreasson.

The Board meetings begin with a discussion of the business and financial performance of the Group. The various financial reports and the Annual Report are reviewed and approved before being published. Other topics discussed at Board meetings include general strategies, overall business reviews, long and short-term targets, human resources, investments, capital distribution, compliance and remuneration. At the end of each year, the CEO and the CFO presents the target proposition for next year to the Board, who then reviews and discusses the proposal during one or several Board meetings. Following discussions and eventual adjustments, the Board approves the target.

The Board members participate in all discussions. Board members may however not vote or deliberate on any motion in which they have a conflict of interest. A Board member is not counted in the quorum of a meeting if a conflict of interest disallows him/her from voting on a particular motion. Board members shall declare the nature of any conflict of interest prior to deliberating and voting on the issue, and such declaration is entered in the minutes of the meeting. Any conflicts of interest are reported at the forthcoming Annual General Meeting of shareholders.

The CFO is always invited to the quarterly Board meetings. Other members of the Oriflame Management are from time to time invited to meetings with the Board in order to present issues related to their specific areas of responsibility. Auditing issues are carefully considered by the Audit Committee and then reported to the Board of Directors. At least once per year the Board meets with the auditors without the CEO or other members of senior management being present. In 2011 such meetings took place on 15 February and in advance of the 2011 year-end report on 16 February 2012.

For more information about Board members, please read the section "Board of Directors" on page 92–93.

Board composition and attendance at Board and Committee meetings during 2011

Board member	Attendance		
	Board meeting	Remuneration Committee	Audit Committee
Robert af Jochnick (chairman)	15	3	
Magnus Brännström	15		
Anders Dahlvig	13		
Marie Ehrling	15		7
Lilian Fossum Biner	15	3	
Alexander af Jochnick	15		*4
Jonas af Jochnick	15		**3
Helle Kruse Nielsen	15		7
Christian Salamon	13		6
Total number of meetings in 2011	**15**	**3**	**7**

* Audit Committee member since 19 May 2011.

** Audit Committee member until 19 May 2011.

Nomination Committee and nomination process

At the Annual General Meeting held on 19 May 2011, the meeting resolved to approve the following nomination process for the election of the Nomination Committee:

- The Chairman of the Board shall convene the five largest shareholders of the Company, as it is known by the Company at that time, at the end of the third quarter of the year. These shareholders then have the right to appoint a member each of the Committee. If any of the five largest shareholders declines its right to appoint a member of the Committee, or if a member resigns from the Committee and is not replaced by a new member appointed by the same shareholder, the shareholder next in size shall be given the opportunity to appoint a member of the Committee. If several of the shareholders decline their right to appoint members of the Committee, no more than the eight largest shareholders need to be contacted. The Committee should be chaired by one of its members. No more than two of the Committee's members should also be members of the Board. If any of the shareholders having appointed a member to the Committee sells a not insignificant part of their shares in the Company and ceases to qualify as a large shareholder with rights to appoint a member to the Committee, the respective member should resign from the Committee, and a new member should be appointed by the next large shareholder. The Chairman of the Board shall, as part of the Committees' work, present any matters regarding the Board's work that may be of importance for the Committee's work, including an evaluation of the work of the Board and the requirements and skills set to be represented by the Directors, to the Committee;
- Individual shareholders shall have the possibility to give suggestions regarding members of the Board to the Committee for further assessment within its scope of work;
- Information regarding the composition of the Committee shall be made public at least six months before the Annual General Meeting; and
- The Committee shall have the right to charge the Company costs for recruitment consultants, if it is deemed necessary to get an adequate selection of candidates for members of the Board.

The task of the Nomination Committee is to prepare and submit proposals to the Annual General Meeting for the election of Board members and the size of the fees paid to Board members and other Committees of the Board (currently being the Audit Committee and Remuneration Committee).

The Nomination Committee is intended to meet as often as necessary, but at least once per year.

In accordance with the nomination process approved by the Annual General Meeting, the Chairman of the Board, Robert af Jochnick, may be elected to the Nomination Committee, which did indeed occur in 2011. Carlos Hardenberg, Franklin Templeton Investments, Per Hesselmark, Stichting af Jochnick Foundation, Damien Lanternier, Financière de l'Échiquier and Åsa Nisell, Swedbank Robur Fonder were also appointed to the Committee. Per Hesselmark has acted chairman of the Nomination Committee. No remunerations were paid to the members of the Nomination Committee. The Nomination Committee formed in 2011 has in advance of the 2012 AGM met three times. All meetings were attended by all committee members.

The work of the Nomination Committee constituted in 2011 comprised the following: As a basis for the Committee's work, information on the Company's operations and strategic focus was presented by the Chairman of the Board at the first meeting. The Chairman of the Board also reported on the Board's work during the year. As a basis for its work, the Nomination Committee also received a presentation and report of an evaluation conducted by an external consultant concerning the Board and its work. The evaluation revealed that the Board is very well-functioning, also in comparison with other listed companies and that there is clarity between the roles of the owners, the Board and management. The evaluation furthermore concluded that the Board is composed by individuals with relevant and complementary expertise and that all Board members demonstrated a high level of commitment. After evaluating the work of the Board, the Committee drew the conclusion that the Board has been functioning well and that the critical competences have been adequately represented on the Board. The aim of the Nomination Committee is that elected Board members shall represent knowledge and competence relevant for Oriflame's operations. Independent Board members are included in full compliance with requirements that apply for publicly listed companies in Sweden.

The Nomination Committee has thereafter formulated proposals for the Annual General Meeting to be held on 21 May 2012. The proposals relates to the:

i. composition of the Board of Directors;
ii. fees paid to Board members; and
iii. appointment of Auditors.

The Nomination Committee has decided to propose to the 2012 Annual General Meeting that it re-elects all current Board members, being Robert af Jochnick (Chairman), Magnus Brännström, Marie Ehrling, Anders Dahlvig, Lilian Fossum Biner, Alexander af Jochnick, Jonas af Jochnick, Helle Kruse Nielsen and Christian Salamon. Anders Dahlvig, Marie Ehrling, Lilian Fossum Biner, Helle Kruse Nielsen and Christian Salamon are independent of the Company, the Company's Management and the Company's large shareholders.

Magnus Brännström is not independent from the Company, being the Company's CEO. Robert, Jonas and Alexander af Jochnick are not independent from the Company nor from its major shareholders: Robert and Jonas af Jochnick are co-founders of the Company and together with other members of the af Jochnick family they constitute the largest shareholder of the Company. They have been members of the Board since 1970. Alexander af Jochnick was an employee of the Company from 1999 to 2007. Alexander af Jochnick continues to be involved in the Company outside his duties as a Board member on a request and availability basis determined by the CEO. Remuneration for his assignments outside the directorship is on a time-spent basis and does not exceed €100,000 per annum and the Board is continuously informed of his assignments for the Company. For the past 3 years including 2011, no such additional remuneration was paid to Alexander af Jochnick.

After a review of the Board's compensation, the Nomination Committee resolved to propose to the 2012 Annual General Meeting to leave the Directors' remuneration unchanged.

The Nomination Committee furthermore resolved to propose to the 2012 Annual General Meeting that the current Auditors, KPMG, be re-elected.

Remuneration Committee

Each year following the Annual General Meeting, the Board appoints a Remuneration Committee. The Remuneration Committee elected in 2011 consisted of Lilian Fossum Biner and Robert af Jochnick. The task of the Committee is to review remuneration and other material terms of employment for the Company's executive directors, senior executives and other key personnel. Based on its reviews the Remuneration Committee prepares proposals for resolutions, subject to final approval by the Board. The Remuneration Committee meets when necessary. During 2011 the Remuneration Committee has met three times.

Audit Committee

The Company's Audit Committee is appointed by the Board each year following the Annual General Meeting. The Audit Committee reviews internal and external information, works with the external Auditor on the audit plan and internal controls, and discusses with management the audit results. The Audit Committee reviews matters related to the Company's and the Group's accounting, financial reporting and internal control as well as financial risk exposure and risk management. It furthermore reviews the work of the Auditors. Based on their reviews the Audit Committee prepares proposals for resolutions, subject to final approval by the Board. The Audit Committee meets at least biannually. In 2011 the Audit Committee met seven times. At the constitutive board meeting held on 19 May 2011, Jonas af Jochnick, who declined re-election to the committee, was replaced by Alexander af Jochnick. The rest of the composition of the Audit Committee has remained unchanged since 2007, and as of 19 May 2011 comprises Marie Ehrling, Alexander af Jochnick, Helle Kruse Nielsen and Christian Salamon. Christian Salamon has acted chairman of the committee. The CFO and the Internal Control Director report to the Audit Committee and are regular invitees to their meetings.

Auditor

The Annual General Meeting held on 19 May 2011 resolved to elect KPMG Luxembourg S.à r.l. as independent auditor in respect of the statutory accounts and consolidated financial statements until the close of business of the next Annual General Meeting to be held on 21 May 2012. KPMG Luxembourg S.à r.l. is the Luxembourg member firm of KPMG International and has been engaged as Oriflame's independent auditor since 21 May 2007. The KPMG Luxembourg S.à r.l. team is headed by Dennis Robertson. During the past five years, KPMG Luxembourg S.à r.l. has provided advice to the Company on fiscal matters. Apart from his engagement with Oriflame, Dennis Robertson holds no assignments for any persons affiliated with Oriflame or for any of Oriflame's larger shareholders. In connection to the year-end audit, Dennis Robertson and members of his team met with the Board on 16 February 2012 in order to present their findings and report on their views on the quality of Group reporting and affiliated matters related to Group auditing. KPMG audit team is also regularly invited and attending the Audit Committee meetings throughout the year.

Oriflame Management and Organisation

CEO and Corporate Committee

The CEO is appointed by the Board and is responsible for the day-to-day control of the Group. Oriflame's Chief Executive Officer Magnus Brännström was born in Sweden in 1966. He studied law and received his Masters of Science in Business Administration and Economics from Uppsala University. Mr. Brännström worked for Spendrups, a Swedish brewery, before joining Oriflame as Managing Director of Russia in 1997. He then became Regional Director for the CIS and Asia regions. Mr. Brännström assumed his position as CEO of Oriflame in March 2005.

The Corporate Committee is responsible for the implementation of the Group strategy, business control and the distribution of resources between the regions. The Corporate Committee is headed by the CEO. In addition to the CEO, the Corporate Committee consists of Jesper Martinsson (Chief Operating Officer) and Gabriel Bennet (Chief Financial Officer). The allocation of duties and responsibilities within and between the Board and the CEO, the CFO and the COO are set out in the Officer Instructions drawn up by the Board.

Executive Business Review

The day-to-day business of the Group is in turn reviewed in a cross-functional Integrated Business Management Procedure. Once per month, the Corporate Committee invites certain senior managers to an Executive Business Review meeting, in which the current supply and demand status within the Group is reviewed and decisions are taken to alter any direction (if any). The Executive Business Review covers all core business processes within Oriflame, such as New Product Development, Demand & Catalogue and Supply Chain. The process is illustrated in the model below.

Regional management

Oriflame distributes its products through a network of more than 3.6 million independent sales consultants in more than 60 countries. Group segmentation is based on geographic cosmetics sales by region, currently being CIS & Baltics, EMEA, Asia and Latin America. Each region has its own staff and resources to facilitate its effective control and is headed by a Regional Director. Each Regional Director reports to the COO.

In addition to daily operations, the tasks of regional management include drawing up proposals for strategic regional development and investment. These are reviewed by the corporate functions and presented to the Board for approval within the strategy and target review meetings.

Oriflame has local presence in each region in the form of wholly-owned sales companies in a total of 50 markets. In 12 markets, Oriflame acts through franchise arrangements with local distributors rather than through subsidiaries. Oriflame has a decentralised organisation where the local sales companies take full responsibility for managing their sales consultants. The sales companies are organised into three main areas: Sales & Marketing, Operations and Finance & Administration. Many sales companies operate with their own warehouse facilities, others are supplied by regional warehouse hubs. Each sales company is headed by a managing director.

Global Support and Service

The sales companies are supported by global service functions. The global support and service functions consist of directors and staff for the Finance, Supply, IT and Online, Marketing and Sales Support functions. Today, Oriflame's global support and service functions are located primarily in Fribourg, Switzerland (branch); Warsaw, Poland; Stockholm, Sweden; Prague, Czech Republic and Bray, Ireland where support functions in the fields of R&D, Marketing, Sales Support, Global Supply, IT, Online and Finance are placed. The teams work together with the common objective of giving Oriflame a competitive advantage by supplying first class service and support to the local sales companies.

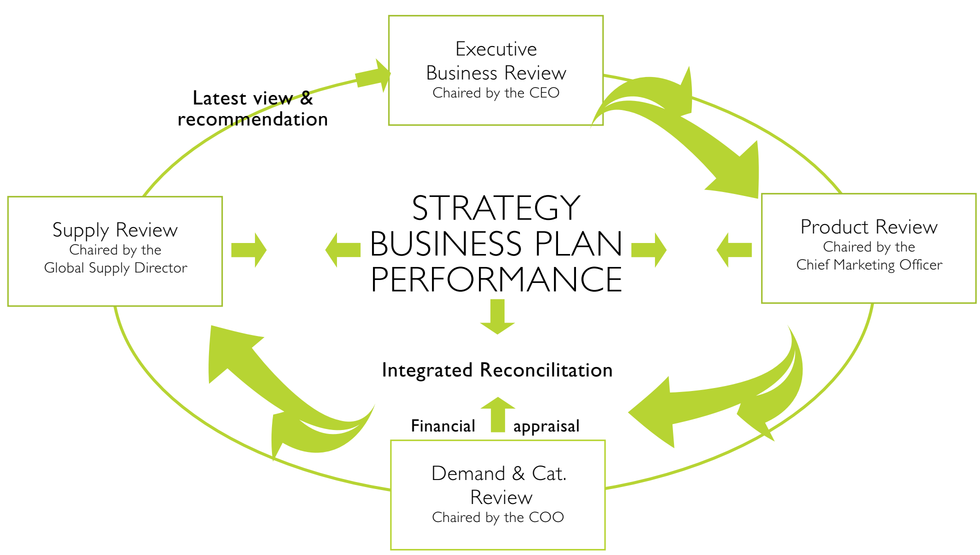
Principles of remuneration for senior executives

Salaries

Oriflame offers competitive salaries according to position and market in order to attract and retain the best individuals for the positions.

Fixed and variable components

Oriflame allocates 6.5 percent of any increase in operating profit to profit sharing to be shared among the Company's top management, however for each individual never more than an equivalent of 12 months salary. The allocation is according to position and flexed according to performance in the year. The 6.5 percent includes company cost for social charges.



Moreover, the Company currently offers a share incentive plan which covers the top (approx.) 100 Executives and Managers. Each year the individuals covered by the plan are invited to invest in a number of shares at the current market price. In return for this they will receive between 0 and 8 free shares in three years time, depending on the increase in operating profit. For further information, see note 23 to the consolidated financial statements in the Annual Report.

Pensions

Members of the Senior Management are offered pension benefits that are competitive in the country where the individual is resident. Oriflame pays pensions into an independent defined contribution scheme. In addition, Oriflame has defined contribution schemes for some of its employees in compliance with pension requirements in the countries in which it operates.

Non-monetary benefits

Members of the Corporate Committee and certain other Executives are entitled to customary non-monetary benefits such as company cars and company health care. Moreover, certain individuals may be offered company housing and other benefits including school fees.

REPORT ON INTERNAL CONTROL AND MONITORING

This report on internal control and monitoring has been prepared in accordance with the Swedish Corporate Governance Code and is limited to internal control over financial reporting. This report has been reviewed by the Company's auditors.

The Company is using the COSO framework as a basis for internal control with respect to financial reporting. The COSO framework was issued by the Committee of Sponsoring Organizations of the Treadway Commission. The framework consists of five components: control environment, risk assessment, control activities, information and communication, and monitoring. The Company has decided to use this framework in its internal control function.

Since 2010, Internal Control is a separate permanent function within the Company. During 2011 Internal Control has continued its development as further presented below.

Control environment

The Board has the overall responsibility to ensure that the Company's system for management and internal control is effective. The Company's internal control procedures cover all units within the Group and include policies for measurement, acquisition and protection of assets, controlling the accuracy and reliability of reports, benchmarking between units to share best practice and ensuring compliance with defined guidelines. The policies and guidelines are intended to create a foundation for good internal control.

The Board has also ensured that the organisational structure is logical and transparent, with clearly defined roles, responsibilities and processes that facilitate the effective management of operational risks and ensure that the Company fulfills its goals. The structure includes the evaluation by the Board of the business performance and results through reports that contain results, forecasts and targets. The Board reviews the interim and annual reports before they are presented externally.

The Audit Committee monitors effectiveness of internal controls, considers critical accounting questions and regulatory compliance. The auditors are invited to participate in the regular meetings of the Audit Committee. Since October 2010 the Internal Control Director is a regular invitee to the Audit Committee meetings to present the latest developments on internal control processes, related policies, procedures and formally requests approval of the Audit Committee where relevant.

Furthermore, for each region and for the Supply, Marketing and R&D division, a Vice President Finance (hereinafter VPF) who reports directly to the CFO has been appointed. The VPFs are responsible for the implementation and maintenance of internal control processes, as well as reporting in accordance with Group guidelines and ensuring that local laws and regulations are followed.

During 2011, the Company implemented an Internal Control software which supports the control process throughout the organization. The software facilitates the roll-out and supervision of all control activities in a systematic way. It enables web-based access for all users and generates assessments based on automated data-consolidation and built-in dashboard reports.

The software has been rolled out to be used by all relevant regional and local personnel (being each sales entities' Finance Manager or Finance Director (hereinafter FM/FD), the Regional Finance Directors (hereinafter RFD), the Shared Service Finance Directors (hereinafter SSFD), the functional Finance Directors in the Corporate Finance (FDCF) team and the regional and functional VPFs).

The FM/FDs and/or the SSFDs are responsible for having the requested control activities in place in their organization. They execute self-assessments and attach relevant evidences that the listed control activities exist. This self-assessment is verified by a RFD or VPF or FDCF in the software environment.

The input is continuously reviewed by the Internal Control Director, and questions or concerns are addressed to the relevant personnel. If a control activity does not exist or the evidence is not reliable, the FM/FD has the responsibility to setup the control or a new process or/and provide a new evidence.

Risk assessment

The major risk areas for material misstatements in the financial reporting were already in 2009 defined as follows: inventory, cash and bank, credit process, sales, performance discount and bonuses, and information technology system. These financial reporting risks were addressed during 2011, as well as together with two additionally identified financial risks: Accounts payables and risks related to the hedging function of the Treasury department.

Control activities

In 2011 the Company finalised three additional control process descriptions: Sales control process, Accounts payables control process and the Hedging control process.

Each control process-description defines key control activities (KCA) in the different steps of the processes. The Company also intends to use these documents as training material for new employees in their induction program.

A process description follows the logical structure of the business and reporting flow, with a clear definition of the process-steps and the related key controls. It also assigns responsibilities to different positions involved in the process and states the reasons for the control.

The key control activities can be policies, internal procedures, reconciliations, verifications, authorisations, and segregation of duties.

During 2011, all control activities defined in the control processes were imported to the Internal Control software. Furthermore, during 2011 the software was also used to, in cooperation with regional Legal departments, implement certain control activities to further safeguard legal and regulatory compliance in the markets.

Information and communication

The Company has information and communication channels intended to ensure the effective provision of accurate information regarding financial information. Policies and guidelines on financial reporting are revised and updated continuously and are made available internally on the Company's intranet and via memorandums and internal meetings. There are also formal and informal information channels that enable employees to communicate important information to relevant recipients.

A policy for communication and information with external parties is in place on the Company's intranet to ensure that accurate and appropriate information is provided to external parties.

The control process descriptions, control activities and requested evidences are documented and made available to the relevant employees through the Internal Control Software.

Monitoring

The Vice Presidents Finance monitor the operations performing analytical controls such as follow-up on forecasts and budgets, analysis of results and balance sheet items, business reviews and commentaries on markets' and functions' (supply, marketing) performance. The result of this work is regularly reported to management and group functions concerned. The functions regularly monitor their respective areas of responsibility in order to identify potential risks and errors.

In addition to the implementation of the central monitoring through the software described above, the following key Internal Control activities and risk areas were further defined and addressed during 2011:

- Credit Control procedures.
- Sales control procedures.

The self-assessments of the main controls on the Credit Control process of selected entities were reviewed by the Company's auditors.

STATEMENT FROM THE BOARD OF DIRECTORS

The consolidated financial statements are prepared in accordance with IFRS as adopted by the European Union and give a true and fair view of the consolidated financial position of Oriflame and of its consolidated financial performance. The Directors' report includes a fair review of the development and performance of the business and the position of the entity and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that the Group faces.

Luxembourg, 16 April 2012

Robert af Jochnick
Chairman of the Board

Anders Dahlvig	Marie Ehrling	Lilian Fossum Biner	Alexander af Jochnick
Jonas af Jochnick	Helle Kruse Nielsen	Christian Salamon	Magnus Brännström *CEO*

CONSOLIDATED INCOME STATEMENTS

Year ended 31 December

€'000	Note	2011	2010
Sales	3	1,493,767	1,513,596
Cost of sales		(478,981)	(511,117)
Gross profit		**1,014,786**	**1,002,479**
Other income	4	56,739	58,090
Selling and marketing expenses		(649,059)	(643,544)
Administrative expenses	6, 7	(264,312)	(259,674)
Operating profit		**158,154**	**157,351**
Analysis of operating profit:			
Adjusted operating profit		164,062	168,123
Restructuring	29	(5,908)	(721)
Impairment Iran	29	–	(10,051)
Operating profit		**158,154**	**157,351**
Financial income	9	33,594	17,924
Financial expenses	9, 30	(69,934)	(40,058)
Net financing costs		**(36,340)**	**(22,134)**
Net profit before income tax		**121,814**	**135,217**
Current tax	10	(26,761)	(33,201)
Deferred tax	10, 15	4,767	15,521
Total income tax expense	10	(21,994)	(17,680)
Net profit		**99,820**	**117,537**
Earnings per share, €	11		
Basic		1.75	2.07
Diluted		1.75	2.06

The attached notes on pages 74 to 90 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Year ended 31 December

€'000	Note	2011	2010
Net profit		**99,820**	**117,537**
Other comprehensive income			
Foreign currency translation differences for foreign operations	9, 20	(12,418)	16,158
Effective portion of changes in fair value of cash flow hedges, net of tax	9	(1,853)	(478)
Other comprehensive income for the year, net of income tax		**(14,271)**	**15,680**
Total comprehensive income for the year		**85,549**	**133,217**

The attached notes on pages 74 to 90 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

€'000	Note	31 December 2011	31 December 2010
Assets			
Property, plant and equipment	12	201,959	184,151
Intangible assets	13	20,141	19,999
Investment property	14	1,071	1,108
Deferred tax assets	15	37,751	33,530
Other long-term receivables		2,086	1,336
Total non-current assets		**263,008**	**240,124**
Inventories	16	264,556	286,350
Trade and other receivables	17	75,172	81,981
Tax receivables		3,675	7,188
Prepaid expenses		44,939	42,135
Derivative financial assets	28.3	41,930	11,823
Cash and cash equivalents	18	137,040	86,248
Total current assets		**567,312**	**515,725**
Total assets		**830,320**	**755,849**
Equity			
Share capital	19	71,301	71,225
Reserves	20	(63,495)	(47,722)
Retained earnings		216,230	201,880
Total equity		**224,036**	**225,383**
Liabilities			
Interest-bearing loans	21	327,872	282,268
Other long-term non interest-bearing liabilities		536	458
Deferred income		510	427
Deferred tax liabilities	15	4,826	4,462
Total non-current liabilities		**333,744**	**287,615**
Current portion of interest-bearing loans	21	39,852	2,556
Trade and other payables	22	87,018	101,370
Tax payables		11,935	16,633
Accrued expenses		101,980	103,660
Derivative financial liabilities	28.3	5,120	1,316
Pensions reserve		–	19
Provisions	26	26,635	17,297
Total current liabilities		**272,540**	**242,851**
Total liabilities		**606,284**	**530,466**
Total equity and liabilities		**830,320**	**755,849**

The attached notes on pages 74 to 90 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

At 31 December *(Attributable to equity holders of the Company)*

€'000	Note	Share capital	Share premium	Legal reserve	Translation reserve	Hedging reserve	Other reserves	Total reserves	Retained earnings	Total Equity
At 1 January 2010		**71,018**	**8,232**	**7,363**	**(87,040)**	**478**	**4,982**	**(65,985)**	**153,088**	**158,121**
Net profit		–	–	–	–	–	–	–	117,537	117,537
Other comprehensive income										
Foreign currency translation differences for foreign operations		–	–	–	16,158	–	–	16,158	–	16,158
Effective portion of changes in fair value of cash flow hedges, net of tax		–	–	–	–	(478)	–	(478)	–	(478)
Total other comprehensive income for the year, net of income tax		**–**	**–**	**–**	**16,158**	**(478)**	**–**	**15,680**	**–**	**15,680**
Total comprehensive income for the year		**–**	**–**	**–**	**16,158**	**(478)**	**–**	**15,680**	**117,537**	**133,217**
Issuance of new shares	19	207	3,740	–	–	–	–	3,740	–	3,947
Share incentive plan		–	–	–	–	–	1,116	1,116	–	1,116
Share incentive plan 2007 (release)		–	–	–	–	–	(2,273)	(2 ,273)	2,273	–
Dividends	20	–	–	–	–	–		–	(71,018)	(71,018)
At 31 December 2010		**71,225**	**11,972**	**7,363**	**(70,882)**	**–**	**3,825**	**(47,722)**	**201,880**	**225,383**
Net profit		–	–	–	–	–	–	–	99,820	99,820
Other comprehensive income										
Foreign currency translation differences for foreign operations		–	–	–	(12,418)	–	–	(12,418)	–	(12,418)
Effective portion of changes in fair value of cash flow hedges, net of tax		–	–	–	–	(1,853)	–	(1,853)	–	(1,853)
Total other comprehensive income for the year, net of income tax		**–**	**–**	**–**	**(12,418)**	**(1,853)**	**–**	**(14,271)**	**–**	**(14,271)**
Total comprehensive income for the year		**–**	**–**	**–**	**(12,418)**	**(1,853)**	**–**	**(14,271)**	**99,820**	**85,549**
Issuance of new shares	19	76	1,226	–	–	–	–	1,226	–	1,302
Share incentive plan		–	–	–	–	–	(2,728)	(2,728)	–	(2,728)
Dividends	20	–	–	–	–	–	–	–	(85,470)	(85,470)
At 31 December 2011		**71,301**	**13,198**	**7,363**	**(83,300)**	**(1,853)**	**1,097**	**(63,495)**	**216,230**	**224,036**

The attached notes on pages 74 to 90 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended 31 December

€'000	Note	2011	2010
Operating activities			
Net profit before income tax		**121,814**	**135,217**
Adjustments for:			
Depreciation and impairment of property, plant and equipment	8, 12, 14	21,919	21,802
Amortisation of intangible assets	8, 13	4,840	4,179
Change in fair value of borrowings and derivatives financial instruments		9,176	379
Impairment Iran	29	–	7,139
Deferred income		82	(28)
Share incentive plan		(2,728)	1,116
Unrealised exchange rate differences		3,088	1,178
Profit on disposal of property, plant and equipment, intangible assets and investment property		(606)	(496)
Financial income		(13,663)	(12,401)
Financial expenses		35,741	40,058
Operating profit before changes in working capital and provisions		**179,663**	**198,143**
Increase in trade and other receivables, prepaid expenses and derivative financial assets		(2,602)	(14,234)
Decrease/(increase) in inventories		12,155	(66,916)
(Decrease)/increase in trade and other payables, accrued expenses and derivative financial liabilities		(15,477)	23,953
Increase/(decrease) in provisions		4,289	(1,211)
Cash generated from operations		**178,028**	**139,735**
Interest received		10,263	4,490
Interest and bank charges paid		(30,912)	(25,297)
Income taxes paid		(22,117)	(24,137)
Cash flow from operating activities		**135,262**	**94,791**
Investing activities			
Proceeds on sale of property, plant and equipment, intangible assets and investment property		1,884	1,587
Purchases of property, plant and equipment, and investment property		(46,727)	(62,675)
Purchases of intangible assets		(4,570)	(5,404)
Cash flow used in investing activities		**(49,413)**	**(66,492)**
Financing activities			
Proceeds from borrowings		530,818	216,677
Repayments of borrowings		(479,921)	(202,750)
Proceeds from issuance of new shares		1,302	3,947
Payments of finance lease liabilities		(4)	(89)
Dividends paid		(85,393)	(70,978)
Cash flow used in financing activities		**(33,198)**	**(53,193)**
Change in cash and cash equivalents		**52,651**	**(24,894)**
Cash and cash equivalents at 1 January		86,033	107,092
Effect of exchange rate fluctuations on cash held		(1,744)	3,835
Cash and cash equivalents at the end of the year net of bank overdrafts	18	**136,940**	**86,033**

The attached notes on pages 74 to 90 form an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 • Status and principal activity

Oriflame Cosmetics S.A. ("OCSA" or the "Company") is a holding company incorporated in Luxembourg and registered at 24 Avenue Emile Reuter, L-2420 Luxembourg. The principal activity of the Company's subsidiaries is the direct sale of cosmetics. The consolidated financial statements of the Company as at and for the year ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as the "Group").

Note 2 • Basis of preparation and summary of significant accounting policies

(a) Statement of compliance

The consolidated financial statements of Oriflame Cosmetics S.A. have been prepared by management in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). The Company prepared statutory financial statements in accordance with Luxembourg law which are published on the www.oriflame.com website.

The financial statements were authorised for issue by the Board of Directors on 16 April 2012.

(b) Basis of preparation

The consolidated financial statements are presented in euro, rounded to the nearest thousand. They are prepared on a historic cost basis, except for financial instruments that are stated at fair value.

(c) Use of estimates and judgements

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 10 and 15 – utilisation of tax losses
- Note 16 – inventory reserves
- Note 23 – measurement of share-based payments
- Note 26 – provisions and contingencies
- Note 28 – valuation of financial instruments
- Note 29 – restructuring and impairment Iran

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

(d) Changes in accounting policies and presentation

As of 1 January 2011, Oriflame Cosmetics S.A. adopted new standards and amendments to standards which became effective January 1, 2011. These new accounting standards had no material effect on the consolidated financial statements.

Changes in presentation

Consolidated statements of financial position

The Group has enhanced the presentation of its consolidated statements of financial position by reclassifying accrued interest liabilities on derivatives from accrued expenses to derivative financial liabilities. Comparative figures have been presented accordingly.

Consolidated statements of cash flows

The Group has changed the presentation of its consolidated statements of cash flows by reclassifying the interest received from cash flow used in investing activities to cash flow from operating activities and by reclassifying the change in fair value of derivatives financial instruments from the working capital to the separate adjustment for change in fair value of borrowings and derivatives financial instruments. Comparative figures have been presented accordingly.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(e) Basis and scope of consolidation

The Company prepares consolidated financial statements that aggregate the assets and liabilities and income and expenses of the Company and its subsidiaries. Subsidiaries are defined as entities over which the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases.

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

The scope of consolidation is affected by acquisitions and disposals.

(f) Foreign currencies

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to euro at the foreign exchange rate ruling at that date. Foreign exchange differences arising on revaluation of monetary assets and liabilities are recognised in the consolidated income statements. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to euro at foreign exchange rates ruling at the dates the fair value was determined.

Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated at the closing rate of exchange at the reporting date and profits and losses at monthly average rates. Exchange differences arising on trading transactions are included in earnings for the period and exchange differences arising on the translation of the financial statements of foreign subsidiaries are reported as movements in translation reserves. Exchange differences arising on loans between subsidiaries which are of a long term investment nature, where settlement is not planned or anticipated in the foreseeable future, are reported as movements in translation reserves until the disposal of the net investment, at which time they are recognised in the consolidated income statements.

(g) Derivative financial assets and liabilities

The Company uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, investing and financing activities. The Company does not hold or issue derivative financial instruments for trading purposes. However, derivates that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see accounting policy (h)).

(h) Hedging

(i) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability on cash flows of a recognised liability, a firm commitment or a highly probable transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the firm commitment or forecasted transaction results in the recognition of an asset or a liability, the cumulative gain or loss is removed from equity and included in the initial measurement of the asset or liability.

Otherwise the cumulative gain or loss is removed from equity and recognised in the consolidated income statements at the same time as the hedged transaction. The ineffective part of any gain or loss is recognised in the consolidated income statements immediately.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the consolidated income statements.

(ii) Hedges of monetary assets and liabilities

Where a derivative financial instrument is used economically to hedge the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in the consolidated income statements.

(iii) Hedge of net investment in foreign operation

Where a foreign currency liability hedges a net investment in a foreign operation, foreign exchange differences arising on translation of the liability are recognised directly in equity.

(i) Sales revenue and other income

Revenue, which excludes value added tax and other applicable turnover taxes, represent sales to individual sales consultants and licensed distributors or, in the case of mail order and retail sales, to individual customers. Sales are recognised in the consolidated income statements when the significant risks and rewards of ownership have transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due.

Other income comprises catalogues sales, freight income and rental income.

(j) Employee benefits

(i) Pension obligations

Obligations for contributions to defined contribution pension plans are recognised as an expense in the consolidated income statements as incurred.

(ii) Equity related compensation

Share options granted under Company stock option programs allow employees to acquire shares of the Company. The fair value of the options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at the grant date and spread over the period during which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

(k) Taxation

Income taxes for the year comprise current and deferred taxes, calculated using rates enacted or substantively enacted at the balance sheet date.

Current tax is the expected tax payable on taxable income for the year, any adjustments to tax payable in respect to previous years and other corporate taxes payable.

Deferred tax is provided using the liability method and thus is calculated on temporary differences between the tax bases of assets and liabilities and their respective carrying amounts in the consolidated balance sheet. Deferred tax assets, including those related to unused tax losses, are recognised to the extent that it is probable that future taxable profit will be available against which the assets can be utilised. Deferred tax liabilities associated with investments in subsidiaries are not recognised as the Group is able to control the timing of the reversal of the temporary differences.

The Group's policy is to comply fully with applicable tax regulations in all jurisdictions in which the operations are subject to income taxes.

The Group's estimates of current income tax expense and liabilities are calculated assuming that all tax computations filed by the subsidiaries will be subject to review or audit by the relevant tax authorities. Taxes and fiscal risks recognised in the consolidated financial statements reflect Group Management's best estimate of the outcome based on the facts known at the balance sheet date in each individual country. These facts may include but are not limited to change in tax laws and interpretation thereof in the various jurisdictions where the Group operates. The recorded provisions are released when the tax audit of the applicable year is completed or otherwise the statute of limitations for the applicable year expires, unless there is evident reason for earlier release.

(l) Intangible assets

(i) Goodwill

Goodwill arising on acquisition represents the excess of the cost of acquisition over the fair value of the net identifiable assets acquired. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

(ii) Other intangible assets

Other intangible assets acquired by the Group including licenses, software and trademarks are stated at cost less accumulated amortisation and impairment losses.

Property rights have an indefinite useful life. These are not amortised but tested annually for impairment.

(iii) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(iv) Research and development

Development regarding the design and production of software applications is capitalised if the application is technically sound and the Group has sufficient resources to complete development. The expenditure capitalised includes cost for own staff and an appropriate proportion of identifiable overheads. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

(v) Amortisation

Amortisation is charged to the consolidated income statements on a straight-line basis over the estimated useful life of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each reporting date. Intangible assets, except goodwill and property rights, are amortised from the date they are available for use. The estimated useful life for licenses is 10 years, trademarks between 5 and 10 years, capitalised development costs between 3 and 5 years and software between 3 and 5 years.

(m) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at purchase price less accumulated depreciation and impairment losses. The cost of assets under construction includes the cost of materials, direct labour and an appropriate proportion of overheads. Borrowing costs are capitalised insofar as they can be allocated directly to the acquisition or production of a qualifying asset. The carrying amounts of tangible assets are reviewed to determine whether they are in excess of their recoverable amount as at each reporting date. If any such excess exists, the carrying amount is reduced to the recoverable amount with the amount of the reduction recognised as an expense in the consolidated income statements.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets

Leases in which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of finance lease is stated at an amount equal to the lower of its fair value and its present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

(iii) Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the consolidated income statements as an expense as incurred.

(iv) Depreciation

Depreciation is charged to the consolidated income statements on a straight-line basis over the estimated useful life of the assets. For assets under construction, the asset will be depreciated when it is commissioned. Improvements to leasehold property are depreciated over their useful economic life or the duration of the lease, whichever is shortest. Land is not depreciated. Other depreciation rates are as follows:

Buildings	2%–5% per annum
Leasehold improvements	15%–50% per annum
Plant and machinery	7%–15% per annum
Furniture and equipment	15%–25% per annum
Computer equipment	15%–33% per annum
Motor vehicles	15%–25% per annum

(n) Investment property

Investment properties are properties that are held either to earn rental income or for capital appreciation or for both. Investment property is recorded at cost less accumulated depreciation. Depreciation is charged to the consolidated income statements on a straight line basis with rates between 2 percent to 5 percent per year. The rental income is recognised within other income in the consolidated income statements.

(o) Inventory

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventories.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Provision is made for obsolete, slow moving or defective items, where appropriate.

(p) Trade receivables

Trade receivables are stated at cost less impairment losses (see accounting policy (r)).

(q) Cash and cash equivalents

Cash consists of cash at bank and in hand together with term deposits and highly liquid debt instruments with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(r) Impairment

The carrying amount of the Group's assets, other than inventories (see accounting policy (o)) and deferred tax assets (see accounting policy (k)), are reviewed at each reporting date to determine whether there is an indication of impairment of the carrying value. If such indication exists, the assets' recoverable amount is estimated.

For goodwill and assets that have an indefinite useful life the recoverable amount is estimated at each reporting date.

An impairment loss is recognised whenever the carrying amount of the asset, or its cash-generating unit, exceeds its recoverable amount. Impairment losses are recognised in the consolidated income statements.

The recoverable amount of assets is the greater of their fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(s) Share capital

Dividends are recognised as a liability in the period in which they are declared.

Own shares reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the consolidated income statements on the acquisition, sale, issue or cancellation of the Group's own shares. Any difference between the carrying amount and the consideration is recognised in retained earnings.

(t) Interest-bearing loans

(i) Loans at amortised costs

Interest-bearing loans at amortised costs are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans are stated at amortised costs with the difference between the costs and redemption value being recognised in the consolidated income statements over the period of the loans on an effective interest basis.

(ii) Loans at fair value designated as such upon initial recognition

Interest-bearing loans at fair value designated as such upon initial recognition are recognised initially at fair value trough profit and loss. Any subsequent change in the fair value is recognised as a gain or loss in the consolidated income statements at each closing date. The transaction costs are immediately recorded through profit and loss.

(u) Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis netted to the costs that it is intended to compensate. When the grant relates to an asset, it is recognised in deferred income and released to income in equal amounts over the expected useful life of the related asset.

(v) Trade payables

Trade payables are stated at cost.

(w) Provisions

A provision is recognised in the consolidated statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(i) Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

(x) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the consolidated income statements on a straight line basis over the term of the lease. Lease incentives received are recognised in the consolidated income statements as an integral part of the total lease expense.

(ii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, net foreign exchange gains or losses, gains and losses on hedging instruments that are recognised in the consolidated income statements and gains and losses on derivative financial assets and liabilities, bank charges and changes in fair value of financial assets and liabilities.

Interest income is recognised in the consolidated income statements as it accrues, using the effective interest method.

The interest expense component of finance lease payments is recognised in the consolidated income statements using the effective interest rate method.

(y) Segment reporting

The Group determines and presents operating segments based on the information that internally is provided to the Corporate Committee, who is the Group's chief operating decision maker.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses. Operating segment's operating results are reviewed regularly by the Corporate Committee to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the Corporate Committee include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate and overhead assets, liabilities and expenses not allocated to the operating segments. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill. In the framework of the entity-wide disclosures regarding "information about geographical areas", the Management is of the opinion that materiality threshold is 20 percent for Group purposes.

(z) Hyperinflation accounting

The income and expenses of foreign operations in hyperinflationary economies are translated to euro at the exchange rate at the reporting date. Prior to translating the financial statements of foreign operations in hyperinflationary economies, their financial statements for the current year are restated to account for changes in the general purchasing power of the local currency. The restatement is based on relevant price indices at the reporting date.

(aa) New standards and interpretations not yet adopted

The following new and revised Standards and Interpretations have been issued, but are not yet effective. They have not been applied early in these consolidated financial statements. Their impact on the consolidated financial statements of the Group has not yet been systematically analysed. However, a preliminary assessment has been conducted by Group management and the expected impact of each new or amended Standard and Interpretation is presented below.

Standard/Interpretation		Effective date	Planned application by the Group
IFRS 7 amended – Financial instruments: Disclosures – Transfers of Financial Assets	*	1 July 2011	Reporting year 2012
IFRS 1 Amended – First time adoption of IFRS – Severe Hyperinflation and Removal of Fixed Dates	*	1 July 2011	Reporting year 2012
IAS 12 amended – Income taxes – Deferred Tax: Recovery of Underlying Assets	*	1 January 2012	Reporting year 2012
IAS 1 amended – First time adoption of IFRS – Presentation of Items of Other Comprehensive Income	*	1 July 2012	Reporting year 2013
IFRS 7 amended – Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities	**	1 January 2013	Reporting year 2013
IFRS 10 Consolidated Financial Statements	*	1 January 2013	Reporting year 2013
IFRS 11 Joint Arrangements	*	1 January 2013	Reporting year 2013
IFRS 12 Disclosure of Interests in Other Entities	*	1 January 2013	Reporting year 2013
IFRS 13 Fair Value Measurement	**	1 January 2013	Reporting year 2013
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine	*	1 January 2013	Reporting year 2013
IAS 19 Employee Benefits (amended 2011)	*	1 January 2013	Reporting year 2013
IAS 27 Separate Financial Statements (2011)	*	1 January 2013	Reporting year 2013
IAS 28 Investments in Associates and Joint Ventures (2011)	*	1 January 2013	Reporting year 2013
IAS 32 amended – Financial instruments – Offsetting Financial Assets and Financial Liabilities	**	1 January 2014	Reporting year 2014
IFRS 9 Financial Instruments and related amendments to IFRS 7 regarding transition	*	1 January 2015	Reporting year 2015

* No impact or no significant impact is expected on the consolidated financial statements.
** The impact on the consolidated financial statements is expected to result in additional disclosures or changes in presentation.

Note 3 • Segment reporting

Operating segments

The Group has five main reportable segments, which consists of CIS & Baltics, EMEA, Latin America, Asia plus Manufacturing, as this is the structure of financial information reviewed by the Corporate Committee. The purpose of the Group is selling cosmetics within the above organisation. The Group sales consists mainly of sales of Colour cosmetics, Skin care, Personal & Hair Care, Fragrances and Accessories & Wellness products. The segment Manufacturing is producing mainly for the Group. Smaller quantities are produced for third parties as well. "All other segments" includes mail order business and licensee sales. The performance of each market and region is measured by the operating profit. Sales presented in the segment reporting are only revenues from external customers.

Unallocated items

Some costs and capital expenditure are not identified as part of any operating segment and are therefore not allocated. Examples of such items are cost for corporate staff, IT costs and general marketing costs. Net financing costs and total income tax expense are also not allocated.

The accounting policies of the reportable segments are the same as described in note 2.

Summarised financial information concerning the reportable segments is shown in the following tables:

As per 31 December 2011

€'000	CIS & Baltics	EMEA	Latin America	Asia	Manu-facturing	All other segments	Total segments	Unallocated items	Total
Sales	826,083	420,629	87,298	145,997	2,633	11,127	**1,493,767**	–	**1,493,767**
Operating Profit	133,638	57,960	4,349	10,061	4,236	(2,279)	**207,965**	(49,811)	**158,154**
Net financing costs									**(36,340)**
Net profit before income tax									**121,814**
Total income tax expense									**(21,994)**
Net profit									**99,820**
Capital Expenditure	(5,638)	(1,617)	(516)	(1,579)	(32,842)	–	**(42,192)**	(9,693)	**(51,885)**
Depreciation & Amortisation	(6,811)	(2,166)	(1,093)	(2,120)	(6,684)	(27)	**(18,901)**	(7,858)	**(26,759)**
Goodwill	–	1,053	–	4,345	–	–	**5,398**	–	**5,398**

As per 31 December 2010

€'000	CIS & Baltics	EMEA	Latin America	Asia	Manu-facturing	All other segments	Total segments	Unallocated items	Total
Sales	861,035	407,931	84,146	143,629	4,388	12,467	**1,513,596**	–	**1,513,596**
Operating Profit	134,999	55,378	2,981	(41)	14,318	1,312	**208,947**	(51,596)	**157,351**
Net financing costs									**(22,134)**
Net profit before income tax									**135,217**
Total income tax expense									**(17,680)**
Net profit									**117,537**
Capital Expenditure	(12,074)	(2,796)	(706)	(3,606)	(38,063)	–	**(57,245)**	(10,834)	**(68,079)**
Depreciation & Amortisation	(6,163)	(2,201)	(1,201)	(1,960)	(6,387)	(34)	**(17,946)**	(7,583)	**(25,529)**
Goodwill	–	1,053	–	4,345	–	–	**5,398**	–	**5,398**

Sales by major country and the country of domicile of the Company

€ million	2011	2010
Russia	477.5	506.0
Oriflame Cosmetics SA, Luxembourg*	5.7	6.1
All other	1,010.6	1,001.5
Total	**1,493.8**	**1,513.6**

* Included OCSA Swiss Branch.
A major country is defined as one with total sales greater than 20 percent of consolidated sales. The revenue information above is based on the sales performed by each location.

Non-current assets by major country and the country of domicile of the Company **

€ million	2011	2010
Russia	110.7	90.7
Oriflame Cosmetics SA, Luxembourg*	19.9	19.0
All other	92.6	95.6
Total	**223.2**	**205.3**

* Included OCSA Swiss Branch.
** Non-current assets for segment reporting include property, plant and equipment, investment property and intangible assets only.
A major country is defined as one with total Non-current assets greater than 20 percent of consolidated Non-current assets.

Sales by product category

All reportable segments are deriving their revenues from the sale of cosmetics, which are divided in the following categories:

€ million	2011	2010
Colour cosmetics	358.5	363.3
Skin care	313.7	336.0
Personal & Hair care	313.7	301.2
Fragrances	298.8	322.4
Accessories & Wellness	209.1	190.7
Total	**1,493.8**	**1,513.6**

Major customers

Oriflame does not have any single customer for which revenues from transactions have exceeded 10 percent of the Group total sales.

Note 4 • Other income

Other income are composed of:

€'000	2011	2010
Freight income	34,179	34,948
Printing income	21,768	22,591
Rental income	792	551
Other income	**56,739**	**58,090**

Note 5 • Employee benefit expense

€'000	2011	2010
Salaries and wages	131,205	128,492
Social security contributions	28,681	26,613
Pension expenses	5,820	4,688
Equity settled transactions	(2,728)	1,116
	162,978	**160,909**

The average number of full-time equivalents in 2011 was 7,898 (8,353).

Note 6 • Auditors' remuneration

Fees billed to the Company and its subsidiaries by KPMG Luxembourg S.à r.l., Luxembourg, and other member firms of the KPMG network during the year are as follows (excluding VAT):

€'000	2011	2010
Auditors' remuneration for annual and consolidated accounts	1,301	1,292
Auditors' remuneration for other assurance services	178	177
Auditors' remuneration for tax advisory services	411	175
Auditors' remuneration for non-audit services	50	56
	1,940	**1,700**

The auditors' remuneration note is based on the European directive (2006/43/CE) which has been adopted in Luxembourg law in December 2009.

Note 7 • Research and Development

€'000	2011	2010
Research and development	11,492	11,341

Note 8 • Depreciation and Amortisation

€'000	2011	2010
Depreciation	21,919	21,350
Amortisation	4,840	4,179
Depreciation and amortisation expenses	**26,759**	**25,529**

In 2011 amortisation expenses includes €24 (€60) which were presented in cost of sales.

Note 9 • Financial income and expenses

Recognised in the consolidated income statements

€'000	2011	2010
Interest income on bank deposits	1,582	836
Interest received on finance lease receivable	54	–
Cross currency interest rate swaps interest income	12,027	5,403
Change in fair value of financial assets and liabilities at fair value held for trading:		
– Forward exchange rate contracts gain	1,220	–
– Cross currency interest rate swaps gain	18,711	6,162
Foreign exchange gains, net	–	5,523
Total financial income	**33,594**	**17,924**
Bank charges and interest expense on loans carried at amortised cost	(18,009)	(23,682)
Interest expense on loan carried at fair value	(8,545)	(5,167)
Cross currency interest rate swaps interest expense	(9,187)	(3,312)
Change in fair value of financial assets and liabilities at fair value held for trading:		
– Forward exchange rate contracts expense	(2,048)	(87)
– Interest rate swaps expense	–	(168)
– Interest rate caps expense	(3,481)	(1,140)
Change in fair value of financial assets and liabilities at fair value designated as such upon initial recognition:		
– USD loan fair value loss	(23,578)	(5,146)
Write-off of cash and cash equivalents Iran*	–	(1,356)
Foreign exchange losses, net	(5,086)	–
Total financial expenses	**(69,934)**	**(40,058)**
Net financing costs	**(36,340)**	**(22,134)**

Recognised in other comprehensive income

€'000	2011	2010
Effective portion of fair value of cash flow hedge	(2,059)	–
Income tax on effective portion of fair value of cash flow hedge	206	–
Effective portion of fair value of cash flow hedge, net of tax	**(1,853)**	**–**
Net loss on revaluation of cash flow hedges	–	(185)
Net change in fair value of cash flow hedges transferred to profit or loss:		
Administrative expense	–	(346)
Financial income	–	–
Current tax	–	53
Effective portion of changes in fair value of cash flow hedges, net of tax	**(1,853)**	**(478)**
Foreign currency translation differences for foreign operations	**(12,418)**	**16,158**
Financial (expenses)/income recognised in other comprehensive income, net of tax	**(14,271)**	**15,680**

* The impact of the Impairment Iran on the respective consolidated income statements position is disclosed in note 29.

Note 10 • Income tax expense

€'000	2011	2010
Recognised in the consolidated income statements		
Current tax expense	26,651	33,165
Adjustment for prior years	110	36
	26,761	**33,201**
Deferred tax income:		
Origination and reversal of temporary differences	(295)	(4,071)
Utilisation of tax losses brought forward	4,727	–
Recognition of previously unrecognised deductible temporary differences	(1,224)	(5,696)
Recognition of previously unrecognised tax losses brought forward	(7,975)	(5,754)
	(4,767)	**(15,521)**
Total income tax expense in the consolidated income statements	**21,994**	**17,680**
Reconciliation of effective tax rate		
Net profit before income tax	121,814	135,217
Average applicable tax rate, %	14.6	11.7

%	2011	2010
Adjustment to tax expenses		
Non-deductible expenses	4.0	3.3
Utilisation of previously unrecognised tax losses brought forward	(0.1)	(2.5)
Recognition of previously unrecognised tax losses brought forward	(6.5)	(4.3)
Recognition of previously unrecognised deductible temporary differences	(1.0)	(4.2)
Increase of tax provision	4.1	6.7
Withholding taxes	1.8	1.8
Other taxes	1.0	0.6
Adjustments in respect of prior years	0.1	0.0
Tax expense (effective tax rate)	**18.1**	**13.1**

Average applicable tax rate increased due to business volume movement in countries where applicable tax rate is higher.

The tax at applicable tax rate is the weighted average of the expected tax expense calculated by applying the countries' enacted or substantively enacted tax rates.

The tax rates of the Group's subsidiaries range between 0 percent and 39 percent. The Group benefits from favourable tax regimes in a number of countries, the benefits of which are expected to continue in foreseeable future.

Note 11 • Earnings per share

(a) Basic

Earnings per share are based on the net profit attributable to ordinary shareholders of €99,820 (€117,537) and the weighted average number of shares outstanding during the year.

Number of shares	2011	2010
Weighted average number of shares outstanding	56,981,896	56,879,908

(b) Diluted

No dilution effect is recognised in the earning per share calculation in 2011. In 2010, dilutive shares amounted to 220,414. The total weighted average number of shares outstanding (diluted) was 57,100,322. Diluted earnings per share were based on the same net profit for the year as used in calculating basic earnings per share.

Note 12 • Property, plant and equipment

€'000	Freehold Land & buildings	Improve-ments to leasehold property	Plant & machinery	Furniture & equipment	Computer equipment	Motor vehicles	Under construction	Total
Cost								
At 31 December 2009	**94,853**	**26,663**	**65,267**	**20,608**	**25,661**	**5,737**	**–**	**238,789**
Additions	18,349	5,841	14,510	2,790	4,195	1,045	15,941	62,671
Disposals	(10)	(2,120)	(599)	(786)	(883)	(942)	–	(5,340)
Re-classification	(262)	270	32	(49)	194	(55)	–	130
Translation	4,847	1,656	3,637	1,506	1,898	308	1,207	15,059
At 31 December 2010	**117,777**	**32,310**	**82,847**	**24,069**	**31,065**	**6,093**	**17,148**	**311,309**
Additions	1,482	3,763	9,788	1,621	3,097	1,543	26,012	47,306
Disposals	(611)	(2,654)	(1,291)	(1,582)	(1,697)	(1,521)	–	(9,356)
Re-classification	1	(650)	–	–	–	–	–	(649)
Revaluation	–	56	169	137	128	31	–	521
Translation	(4,364)	(736)	(2,696)	(552)	(1,013)	(276)	(797)	(10,434)
At 31 December 2011	**114,285**	**32,089**	**88,817**	**23,693**	**31,580**	**5,870**	**42,363**	**338,697**
Depreciation								
At 31 December 2009	**14,903**	**13,613**	**39,498**	**12,816**	**19,798**	**4,024**	**–**	**104,652**
Charge for the year	3,016	3,518	6,481	3,295	4,186	783	–	21,279
Impairment Iran	–	64	–	211	118	59	–	452
Disposals	(10)	(2,011)	(510)	(773)	(810)	(880)	–	(4,994)
Re-classification	48	(47)	(4)	(4)	(81)	(11)	–	(99)
Translation	841	906	1,612	900	1,383	226	–	5,868
At 31 December 2010	**18,798**	**16,043**	**47,077**	**16,445**	**24,594**	**4,201**	**–**	**127,158**
Charge for the year	3,302	4,004	7,071	2,997	3,702	786	–	21,862
Disposals	(244)	(2,405)	(1,261)	(1,679)	(1,533)	(1,008)	–	(8,130)
Re-classification	–	–	(1)	(2)	3	–	–	–
Revaluation	–	30	90	85	83	25	–	313
Translation	(842)	(449)	(1,769)	(362)	(845)	(198)	–	(4,465)
At 31 December 2011	**21,014**	**17,223**	**51,207**	**17,484**	**26,004**	**3,806**	**–**	**136,738**
Net Book Value								
At 31 December 2009	**79,950**	**13,050**	**25,769**	**7,792**	**5,863**	**1,713**	**–**	**134,137**
At 31 December 2010	**98,979**	**16,267**	**35,770**	**7,624**	**6,471**	**1,892**	**17,148**	**184,151**
At 31 December 2011	**93,271**	**14,866**	**37,610**	**6,209**	**5,576**	**2,064**	**42,363**	**201,959**

Property, plant and equipment under construction
These assets are related to the construction of the new manufacturing facility in Russia.

Borrowing costs €'000
Capitalised borrowing costs related to the construction of the new factory amounted to €588 (nil) with a capitalisation rate of 6.3 percent.

Finance leases €'000
Included in property, plant and equipment at 31 December 2011 is the net book value of assets under finance leases totalling €130 (€141), of which computer equipment nil (€6), motor vehicles €130 (€135).

Contractual commitment
Due to the construction of the new manufacturing facility in Russia the Group entered into several purchase contracts. At December 2011, the remaining contractual commitment was €8.4 million (€9 million).

The impact of the Impairment Iran in the consolidated financial statements position is disclosed in note 29.

€'000	Software	Trademarks	Licenses	Property rights	Goodwill	Total
Cost						
At 31 December 2009	**19,320**	**1,180**	**2,924**	**3,330**	**5,398**	**32,152**
Additions	5,224	180	–	–	–	5,404
Disposals	(237)	–	–	–	–	(237)
Re-classification	(130)	–	–	–	–	(130)
Translation	690	–	–	–	–	690
At 31 December 2010	**24,867**	**1,360**	**2,924**	**3,330**	**5,398**	**37,879**
Additions	4,357	213	–	–	–	4,570
Disposals	–	(97)	–	–	–	(97)
Write-off	–	(316)	(2,924)	–	–	(3,240)
Re-classification	649	–	–	–	–	649
Revaluation	14	–	–	–	–	14
Translation	(444)	–	–	–	–	(444)
At 31 December 2011	**29,443**	**1,160**	**–**	**3,330**	**5,398**	**39,331**
Amortisation						
At 31 December 2009	**9,888**	**670**	**2,924**	**–**	**–**	**13,482**
Charge for the year	4,094	85	–	–	–	4,179
Disposals	(221)	–	–	–	–	(221)
Re-classification	99	–	–	–	–	99
Translation	341	–	–	–	–	341
At 31 December 2010	**14,201**	**755**	**2,924**	**–**	**–**	**17,880**
Charge for the year	4,738	102	–	–	–	4,840
Disposals	–	(45)	–	–	–	(45)
Write-off	–	(316)	(2,924)	–	–	(3,240)
Re-classification	–	–	–	–	–	–
Revaluation	14	–	–	–	–	14
Translation	(259)	–	–	–	–	(259)
At 31 December 2011	**18,694**	**496**	**–**	**–**	**–**	**19,190**
Net Book Value						
At 31 December 2009	**9,432**	**510**	**–**	**3,330**	**5,398**	**18,670**
At 31 December 2010	**10,666**	**605**	**–**	**3,330**	**5,398**	**19,999**
At 31 December 2011	**10,749**	**664**	**–**	**3,330**	**5,398**	**20,141**

Goodwill

During 1997, the Group acquired the remaining 49 percent of the Group's interest in Portugal from a party related to the af Jochnick family. This resulted in a goodwill amount of €2.3 million. During 2001, goodwill of €4.6 million arose on acquisition of Rockport Mauritius Ltd and at the end of 2001, the minority shareholders of Oriflame India Pvt. Ltd were bought out which resulted in goodwill of €1.8 million. Upon issuance of IFRS3 - Business combinations, the Group discontinued amortisation of existing goodwill and the carrying amount of the accumulated amortisation (€3.3 million) was eliminated with a corresponding decrease in goodwill.

For the purpose of impairment testing, goodwill is allocated by geographical segment as reported in note 3. At reporting date, the goodwill was tested for impairment with a pre-tax discount rate of 9 percent (9 percent). The recoverable amounts of the goodwill are determined based on value-in-use calculations. Both in 2011 and 2010 these calculations used post-tax cash flow projections based on financial forecasts made by Group Management covering a five year period.

The preparation of the forecast requires a number of key assumptions such as volume, price, product mix, which will create a basis for future growth and gross profit. These figures are set in relation to historic figures and external reports on market growth. Growth rate assumptions used for the evaluation are in line with market growth data, as last year. Average market growth rates for the five year period are for Portugal 3 percent (4 percent) and for India 13 percent (13 percent).

Termination value has been calculated based on the result of the fifth year result without any future growth assumptions divided by the discount rate.

Based on the above assumptions Management made several sensitivity analyses and came to the conclusion that any reasonably possible adverse change in the key assumptions would not reduce the recoverable amount below its carrying amount. No impairment loss was recognised in 2011 and 2010.

Property rights

At the beginning of 2009 the Group purchased the property rights for a dry food composition technology used in some of the wellness products. This technology is used throughout the Group where wellness products are sold, and therefore is not allocated to a specific geographic segment. The useful life of this technology was classified as indefinite as Oriflame has an exclusive, perpetual, unlimited right to use it. The recoverable amount is determined based on value-in-use calculations. These calculations used pre-tax cash flow projections based on financial forecast covering a five year period (five year period). The preparation of the forecast requires a number of key assumptions such as volume and price which will create a basis for future growth and gross profit. Calculation was based on a pre-tax discount rate of 9 percent (9 percent) and a market growth rate of 7 percent (7 percent).

Termination value has been calculated based on the result of the fifth year result without any future growth assumptions divided by the discount rate.

Based on the above assumptions Management made several sensitivity analyses and came to the conclusion that any reasonably possible adverse change in the key assumptions would not reduce the recoverable amount below its carrying amount. No impairment loss was recognised in 2011 and 2010.

Software Property rights

Included in software additions during the year are costs for own developed software for an amount of €627 (€835).

Note 14 • Investment property

€'000	2011	2010
Gross carrying value at January 1	**1,834**	**2,590**
Additions	10	4
Disposals	–	(933)
Translation effects	34	173
Gross carrying value at December 31	**1,878**	**1,834**
Accumulated depreciation at January 1	**726**	**793**
Charge of the year	57	71
Disposals	–	(204)
Translation effects	24	66
Accumulated depreciation at December 31	**807**	**726**
Net book value at year end	**1,071**	**1,108**

Investment property includes commercial and warehouse premises leased to third parties as well as a plot of land. The warehouse premises has been sold during the last quarter of the year 2010.

The related contractual leases contain initial non-cancellable period of 1 year.

Items of Investment property are stated at cost less accumulated depreciation. Depreciation is charged to the consolidated income statements on a straight line basis over an estimated useful life from 20 to 50 years.

Amounts included in the consolidated income statements:

€'000	2011	2010
Rental income from investment property	322	410
Direct operating expenses	(13)	(24)
Depreciation	(57)	(71)
Net rental income	**252**	**315**

The fair value of investment properties has been estimated to the amount of €6.0 million (€5.8 million).

The fair value of investment properties has been determined based on valuations performed by DANA-94 Ukraine and mgr Ewa Rysak-Ostrowska Poland, both accredited independant valuers. The fair value of the investment properties have been determined on transactions observable in the market.

Note 15 • Deferred taxation

Deferred tax assets and liabilities at 31 December 2011 are attributable to the items detailed in the table below:

	2011			2010			
€'000	Assets	Liabilities	Net	Assets	Liabilities	Net	Movement
Property, plant and equipment & intangible assets	1,293	(3,745)	(2,452)	7,299	(3,642)	3,657	(6,109)
Inventories	9,650	(115)	9,535	8,814	(134)	8,680	855
Trade and other receivables	1,420	(388)	1,032	1,097	(225)	872	160
Accruals	5,173	(30)	5,143	5,153	(30)	5,123	20
Other	8,725	(548)	8,177	2,925	(431)	2,494	5,683
Tax losses carried forward	11,490	–	11,490	8,242	–	8,242	3,248
Tax assets/(liabilities)	**37,751**	**(4,826)**	**32,925**	**33,530**	**(4,462)**	**29,068**	**3,857**
Recognised in other comprehensive income							206
Translation difference							704
Deferred tax income							**4,767**

Recognition of deferred tax assets

Deferred tax assets, including those related to unused tax losses, are recognised to the extent that management is confident that future taxable profit will be available against which the assets can be utilised.

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

€'000	2011	2010
Property, plant and equipment & intangible assets	137	446
Inventories	861	1,356
Trade and other receivables	1,627	2,036
Accruals	6,199	8,572
Other	313	830
Total temporary differences*	**9,137**	**13,240**
Tax losses**	130,637	135,344
Total	**139,774**	**148,583**

* The deductible temporary differences do not expire under current tax legislation.

** Of which €2.8 million (€3 million) expire within one year, €2.6 million (€14.6 million) expire between one and five years and €125.2 million (€117.7 million) in more than 5 years.

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profits will be available against which the Group can utilise the benefits.

Note 16 • Inventories

Carrying amount

€'000	2011	2010
Raw materials	17,931	19,746
Work in progress	184	202
Finished goods	250,579	268,616
Other inventories	37,910	41,194
Inventory reserves	(42,048)	(43,408)
Total inventory	**264,556**	**286,350**

During 2011 the Group wrote down €19.5 million (€22.5 million) inventory mainly due to obsolescence which is included in cost of sales expenses.

The carrying amount of inventories carried at fair value less cost to sell was €25.1 million (€24.5 million).

The impact of the Impairment Iran on the respective consolidated financial statements position is disclosed in note 29.

Note 17 • Trade and other receivables

€'000	2011	2010
Trade receivables	50,111	52,246
Other receivables	25,061	29,735
Trade and other receivables	**75,172**	**81,981**

Exposure to credit risk
The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

Carrying amount

€'000	2011	2010
CIS & Baltics	14,741	16,205
EMEA	25,367	27,722
Latin America	7,208	6,561
Asia	2,795	1,758
	50,111	**52,246**

Impairment losses
The aging of trade receivables at the reporting date was:

€'000	Gross 2011	Impairment 2011	Gross 2010	Impairment 2010
Not past due	43,452	836	43,815	471
Past due 21 – 180 days	9,917	3,543	10,730	3,123
Past due 181 – 360 days	4,805	3,829	4,108	3,263
Past due 12 – 18 months	3,939	3,863	3,291	3,195
Past due > 18 months	15,713	15,644	14,255	13,901
	77,826	**27,715**	**76,199**	**23,953**

Based on experience the Group records an impairment allowance on trade receivables not past due, which usually is around 1 or 2 percent. This allowance varies from market to market depending on the latest trends in collectability of the trade receivables.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

€'000	2011	2010
Balance at 1st of January	**23,953**	**23,620**
Impairment loss recognised	8,007	5,504
Specific debt write offs against provision	(4,245)	(5,171)
Balance at 31 December	**27,715**	**23,953**

The allowance accounts in respect of trade receivables are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible. At that point the amount considered irrecoverable is written off against the financial asset directly.

The impairment loss on trade receivables recognised in the consolidated income statements is included in Selling and marketing expenses.

The impact of the Impairment Iran on the respective consolidated financial statements position is disclosed in note 29.

Note 18 • Cash and cash equivalents net of bank overdrafts

Cash and cash equivalents net of bank overdrafts included in the consolidated statements of cash flows comprise the following consolidated statements of financial position amounts:

€'000	Cash	Short term deposits	Total cash	Bank over-drafts	Total
At 31 December 2009	**84,165**	**23,048**	**107,213**	**(121)**	**107,092**
Net flow	(5,040)	(19,760)	(24,800)	(94)	(24,894)
Exchange differences	3,682	153	3,835	–	3,835
At 31 December 2010	**82,807**	**3,441**	**86,248**	**(215)**	**86,033**
Net flow	55,373	(2,837)	52,536	115	52,651
Exchange differences	(1,736)	(8)	(1,744)	–	(1,744)
At 31 December 2011	**136,444**	**596**	**137,040**	**(100)**	**136,940**

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in note 28.

The impact of the Impairment Iran on the respective consolidated financial statements position is disclosed in note 29.

Note 19 • Share capital

The Company has one class of share capital with an authorised share capital of €102.4 million. All shares have equal rights to dividends and shareholders are entitled to one vote per share at annual and general meetings of the Company. The shares have a par value of €1.25. A reconciliation of the movements in share capital are detailed below:

		No. of shares	€'000
Share capital			
Balance 31 December 2009		**56,814,658**	**71,018**
Issue of new shares	(i)	65,647	82
Issue of new shares	(ii)	99,922	125
Balance 31 December 2010		**56,980,227**	**71,225**
Issue of new shares	(iii)	60,907	76
Balance 31 December 2011		**57,041,134**	**71,301**

(i) On 29 June and on 30 September 2010 the Group issued 61,670 and 3,977 achievement shares to respectively Oriflame employees and sales consultants at no consideration for the maturity of the 2007 share incentive plan. The issue of these shares amounting to €0.1 million was financed through share premium, as approved by the EGM of 19 May 2008.

(ii) On 30 August and 30 September 2010 the Group issued 94,955 and 4,967 shares to respectively Oriflame employees and sales consultants as part of the 2010 share incentive plan. The consideration received was €3.9 million, of which €0.1 million was credited to share capital and €3.8 million was credited to share premium.

(iii) On 20 December 2011 the Group issued 57,215 and 3,692 shares to respectively Oriflame employees and sales consultants as part of the 2011 share incentive plan. The consideration received was €1.3 million, of which €0.1 million was credited to share capital and €1.2 million was credited to share premium.

Note 20 • Reserves

(i) Legal reserve
The Company is required by Luxembourg law to appropriate to a legal reserve at least 5 percent of its statutory net profit, until the aggregate reserve equals 10 percent of its issued share capital. The legal reserve is not available for distribution.

(ii) Translation reserve
Included in the translation loss in 2011 are the following:

(a) Exchange loss of €6.6 million (€10 million gain) arising on long term inter-company debt of an investment nature, and;

(b) A foreign exchange loss of €5.8 million (€6.2 million gain) arising from the translation of financial statements of foreign subsidiaries.

Included in the translation reserve is a revaluation reserve related to certain assets of €8.3 million (€9.2 million).

(iii) Hedging reserve
The hedging reserve comprises the effective portion of the cumulative net change in fair value of the cash flow hedging instruments.

(iv) Dividends
In May 2010, the AGM of the Company approved a dividend of €1.25 per share, as proposed by the Board of Directors, i.e. €71 million in total.

In May 2011, the AGM of the Company approved a dividend of €1.50 per share, as proposed by the Board of Directors, i.e. €85.5 million in total.

The Board of Directors will propose to the AGM in May 2012 a dividend payment of €1.75 per share, amounting to €99.8 million in total.

(v) Other reserve
The other reserve comprises the increase in equity from services received with respect to the equity settled share based payments plan.

Note 21 • Interest-bearing loans

€'000	2011	2010
Non-current liabilities		
Loans	327,870	282,256
Finance lease long-term liabilities	2	12
	327,872	**282,268**

Current liabilities		
Short-term loans	39,715	2,308
Bank overdrafts	100	215
Finance lease short-term liabilities	37	33
	39,852	**2,556**

On 23 May 2011, the Group signed two revolving credit facilities, a €330 million five-year revolving, multi-currency, committed, credit facility and a €100 million one-year revolving, committed, credit facility, replacing the €400 million facility which was signed on the 9 December 2009.

In July 2011, the Group successfully completed the issuance of $195 million and €25 million private placement notes. The Note Purchase Agreement, which was signed the 13 July 2011, identifies four series of fixed-rates' Senior Notes with different maturities: $75 million due July 2018, €25 million due July 2018, $70 million due July 2021 and $50 million due July 2023. Interest is paid semi-annually and it is in the range between 4.7 percent and 5.7 percent p.a.

The €100 million facility was repaid in July 2011 with proceeds of the private placements notes.

In April 2010, the Group successfully entered into a $165 million loan in the U.S. Private Placement market. The Note Purchase Agreement, which was signed the 20 April 2010, identifies three series of fixed-rates' Senior Notes with different maturities: $25 million due April 2015, $70 million due April 2017 and $70 million due April 2020. Interest is paid semi-annually and it is in the range between 5 percent and 6.5 percent p.a.

The Credit Facility provides that utilizations may be in Euros or other freely convertible currencies, as agreed. The interest payable is calculated at the relevant interbank rate plus the applicable margin.

Both the Credit Facility and the Note Purchase Agreements contain a number of operating covenants, including restrictions on subsidiary borrowings, restrictions on lending and giving guarantees for financial indebtedness, and restrictions on the disposal of material assets. It also contains a number of financial covenants which include required ratios of consolidated net debt to consolidated EBITDA of the Group, consolidated EBIT to consolidated finance costs and net worth. The Group was in compliance with these covenants as of 31 December 2011 and 31 December 2010.

Terms and debt repayment schedule

The terms and conditions of outstanding loans were as follows:

				31 December 2011		31 December 2010	
€ '000	Currency	Interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Revolving bank facility	EUR	Euribor + margin	2013	–	–	95,000	93,989
Revolving bank facility	SEK	Stibor + margin	2013	–	–	62,462	61,798
Revolving bank facility	PLN	Wibor + margin	2016	9,421	7,793	–	–
Private placement loan	USD	Fixed rate USD coupon	2015–2020	121,324	140,626	121,324	126,470
Private placement loan	USD/EUR	Fixed rate EUR and USD coupon	2018–2023	161,535	179,451	–	–
RUB uncommitted credit facility	RUB	Mosprime + margin	2012	35,996	35,996	–	–
Finance lease liabilities	ROM/CZK	6% / 11%	2013	41	39	48	45
Short term loans	Various	between 5% and 13%	2012	3,719	3,719	2,308	2,308
Bank overdrafts	TRL/DZD	0% / 15%	2012	100	100	215	215
Total interest-bearing liabilites				**332,136**	**367,724**	**281,357**	**284,825**

At 31 December 2011, the Group had total banking facilities available of €700.0 million (€536.5 million) of which €377.8 million (€295.1 million) has been utilized as bank short- and long-term loans, and guarantees.

Note 22 • Trade and other payables

€'000	2011	2010
Trade payables	52,523	67,672
Other payables	34,495	33,698
Trade and other payables	**87,018**	**101,370**

Note 23 • Equity compensation plans

On 19 May 2008 the Oriflame EGM approved a share incentive plan for the years 2008-2010, according to which participants will be offered to purchase at fair market terms shares up to €3.5 million per annum. On 19 May 2010 the Oriflame EGM resolved to increase the investment limit to €4 million per annum. The participants will be offered to subscribe to a certain number of "investment" shares per year. They are entitled to receive a certain number of "achievement" shares for free for every investment share to which they subscribed on the third anniversary of their subscription in the investment share. Achievement shares granted range from 0 to 4 shares per investment share depending on whether the Group achieves certain growth targets in operating profit over the following three year period. The amount of investment shares offered will be determined by the Board of Directors so that the potential dilution under the lifetime of the plan shall amount to less than 3 percent of the share capital of the Group.

On 19 May 2011 the Oriflame EGM approved a share incentive plan for the years 2011–2014. The achievement share mechanism is the same as under the 2008 share incentive plan, except that the investment limit has been reduced, from €4 million to €2 million euro per annum, while the potential achievement share entitlement was increased, from between 0 and 4 to between 0 and 8 achievement shares. The amount of investment shares offered will furthermore be determined by the Board of Directors so that the potential dilution under the lifetime of the plan shall amount to less than 4 percent of the share capital of the Group.

The fair value of services received in return for the achievement shares granted is measured by reference to the value of the investment shares, which is the market price at the time of investing, less forecasted dividends that are discounted at a rate of 5 percent per year. Due to changes in estimates, a total equity compensation accrual has been reversed in 2011 in Administrative expenses amounting to €2.7 million gain (cost of €1.1 in 2010).

The number of investment shares is as follows:

Share schemes	2011	*2010	2009	2008
Granted of the beginning of the scheme	60,907	99,922	111,743	76,001
Forfeited during 2008	–	–	–	(109)
Forfeited during 2009	–	–	(949)	(713)
Forfeited during 2010	–	(618)	(10,627)	(6,873)
Outstanding at the beginning of the year	**–**	**99,304**	**100,167**	**68,306**
Forfeited during 2011	–	(1,500)	(560)	(–)
Expired during 2011	–	–	–	(68,306)
Exercised during 2011	–	–	–	–
Outstanding at the end of the year	**60,907**	**97,804**	**99,607**	**–**

* The 2010 granted investment shares include 4,823 investment shares with a 2 year vesting period.

Note 24 • Related parties

Identity of related parties

The group has a related party relationship with its subsidiaries (see note 25), its directors and executive officers, and a number of companies related through common key management personnel or ownership interests.

Transactions with key management personnel

The Board of Directors and key management personnel of the Group held beneficial interests in the shares of the Group at 31 December 2011 as follows:

	Number of shares 2011
R. af Jochnick and family	4,473,851
J. af Jochnick and family	4,303,500
Alexander af Jochnick	418,884
Christian Salamon	14,940
Marie Ehrling	300
Lilian Fossum Biner	1,000
Helle Kruse Nielsen	1,000
Anders Dahlvig	4,800
Magnus Brännström	271,921
Jesper Martinsson	243,000
Gabriel Bennet	20,993

The major shareholders, the af Jochnick family and the Stichting af Jochnick Foundation, jointly exercise control over 15,523,236 shares which represents 27.2 percent of the outstanding total shares as at 31 December 2011.

The key management personnel compensation is as follows:

For the year ended 31 December 2011, the members of the Board of Directors (excluding Magnus Brännström who in his capacity as Chief Executive Officer is an employee) received total compensation of €298 (€289). The Chairman received €68 (€68).

For the year ended 31 December 2011, the Chief Executive Officer is entitled to receive total compensation of €1,169 (€1,810), of which €856 (€731) was salary, €0 (€458) bonus, €0 (€423) share incentive plan, €227 (€155) pension contributions under the pension scheme for senior management, and €86 (€43) other benefits and allowances.

For the year ended 31 December 2011 the members of the Corporate Committee, which consists of the Chief Executive Officer, the Chief Operating Officer and the Chief Financial Officer (excluding the Chief Executive Officer) are entitled to receive €1,717 (€2,278), of which €1,113 (€952) was salaries, €0 (€447) bonuses, €0 (€367) share incentive plan, €206 (€180) pension contributions under the pension scheme for senior management and €398 (€332) of other benefits and allowances.

The Group has enhanced the presentation of key management personnel compensation by disclosing bonus compensation figures based on the entitlement of the personnel to receive the bonus compensation. In previous year the presentation was made based on the bonus compensation received during the year. Comparative information has been presented accordingly.

Other related party transactions

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

	Transaction value Year ended 31 December		Balance outstanding As at 31 December	
€'000	2011	2010	2011	2010
Expenses and employee costs incurred on behalf of and recharged to Medicover S.A.	(1,792)	(1,877)	(179)	(242)
Medicover health care services	360	342	(1)	–
SRS AB services	645	585	13	112

All transactions with related parties are done on arm's length basis. During the year ending 31 December 2011, no provision for doubtful debts and expense in respect of bad or doubtful debts due from related parties were recognised.

Credus Management AB, a Swedish company wholly owned by Robert af Jochnick, Chairman of the company, from time to time provide Oriflame with consultancy outside the board director assignments of Robert af Jochnick and Alexander af Jochnick.

Administrative and employee costs are incurred on behalf of Medicover Holdings S.A. in connection with the shared office facilities in Waterloo, Brussels. These costs are recharged to Medicover. Jonas af Jochnick is the Chairman of, and a major shareholder in Medicover. Robert af Jochnick is a board member of Medicover. In addition, Medicover has entered into agreements with certain of the Group's subsidiaries in Poland, Romania, Hungary, the Czech Republic and Estonia to provide private health care benefits to employees.

SRS AB is a company related to one of the Board members. SRS AB provides risk management services.

Note 25 • Group companies

The Company holds, whether directly or indirectly, 20 percent or more of the issued share capital of the following companies:

Name	Country of incorporation	Percentage share capital held, %
SARL Natural Swedish Cosmetics	Algeria	100
Oriflame Cosmetics LLC	Armenia	100
Oriflame LLC	Azerbaijan	100
Oriflame Cosmetics Foreign LLC	Belarus	100
Oriflame Management SA	Belgium	100
Oriflame Kozmetika BH. D.o.o. Sarajevo	Bosnia	100
Oriflame Bulgaria EOOD	Bulgaria	100
Oriflame de Chile SA	Chile	100
Oriflame Cosmetics (China) Co. Ltd	China	100
Oriflame Health Food (Beijing) Co Ltd	China	100
Oriflame de Colombia SA	Colombia	100
Oriflame Kozmetika Croatia doo.	Croatia	100
Oriflame Cyprus Limited	Cyprus	100
Oriflame Czech Republic sro	Czech Republic	100
Oriflame Software sro	Czech Republic	100
Oriflame International ApS	Denmark	100
Oriflame del Ecuador SA	Ecuador	100
Oriflame Egypt Ltd	Egypt	100
Oriflame Estonia OU	Estonia	100
Oriflame Oy	Finland	100
Oriflame Georgia LLC	Georgia	100
Oriflame Kosmetik Vertriebs GmbH	Germany	100
Oriflame Hellas Sole Shareholder Ltd	Greece	100
Oriflame Hungary Kozmetika Kft	Hungary	100
Oriflame India Pvt. Ltd.	India	100
PT Oriflame Cosmetics Indonesia	Indonesia	100
PT Orindo Alam Ayu	Indonesia	100
Oriflame Research & Development Ltd.	Ireland	100
Oriflame LLP	Kazakhstan	100
Oriflame Cosmetics LLC	Kosovo	100
Oriflame Cosmetics LLC	Kyrgyzstan	100
Oriflame Latvija S.I.A	Latvia	100
Oriflame Kosmetika UAB.	Lithuania	100
Oriflame Kozmetika dooel	Macedonia	100
Oriflame Investments Ltd	Mauritius	100
Oriflame (Mexico) SA de CV	Mexico	100
Servicios Oriflame, SA de CV	Mexico	100
Oriflame International SRL	Moldova	100
Oriflame Mongolia LLC	Mongolia	100
Oriflame Kosmetika MN doo.	Montenegro	100
Oriflame Maroc SARL	Morocco	100
Oriflame Kosmetiek BV.	Netherlands	100
Oriflame Holdings BV.	Netherlands	100
Oriflame Norge A/S	Norway	100
Oriflame Cosmetics Pakistan (PVT) LTD	Pakistan	100
Oriflame Peru S.A.	Peru	100
Oriflame Poland SP zoo.	Poland	100
Oriflame Products Poland SP zoo.	Poland	100
Oriflame Property Investments SP zoo.	Poland	100
Oriflame Cosmeticos Ltda	Portugal	100

SC Cosmetics Oriflame Romania srl.	Romania	100
Oriflame Cosmetics LLC	Russia	100
Oriflame Products LLC	Russia	100
Oriflame Kosmetika d.o.o.	Serbia	100
Oriflame Slovakia sro	Slovak Republic	100
Oriflame Kozmetika d.o.o.	Slovenia	100
Oriflame Cosmeticos S.A.	Spain	100
Oriflame Lanka Private Ltd	Sri Lanka	100
Oriflame Products Sweden SA (Nordium AB)	Sweden	100
Oriflame Cosmetics AB	Sweden	100
Oriflame Services International AB	Sweden	100
Zetes Holdings AB	Sweden	100
Oriflame Cosmetics (Thailand) Ltd	Thailand	100
Oriflame Management Asia Ltc	Thailand	100
Oriflame Kozmetik Urunleri Ticaret Ltd Sirketi	Turkey	100
DP "Oriflame Cosmetics" Ukraine	Ukraine	100
DP "Rielty Ukraine"	Ukraine	100
Oriflame Kosmetiks Co Ltd	Uzbekistan	100
Oriflame Vietnam Ltd.	Vietnam	100

Note 26 • Provisions, commitments and contingent liabilities

(a) Provisions

€'000	Tax litigations	Restructuring	Claims and other	Total
Balance at 1 January 2011	**14,561**	**85**	**2,651**	**17,297**
Provisions made during the year	12,005	1,198	4,012	17,215
Provisions used during the year	(877)	(46)	(828)	(1,751)
Provisions reversed during the year	(6,087)	(39)	–	(6,126)
Balance at 31 December 2011	**19,602**	**1,198**	**5,835**	**26,635**

Tax litigation provisions relate to several jurisdictions where the Group has received tax assessments and is in the process of defending its tax positions. The provisions are based on management's experience in each jurisdiction, external advice related to the case, the state of development of the country's tax system, and consider likely outcomes to determine the level of accruals. The outcome of these litigations is expected to be decided within up to one year.

Restructuring provision of €1.2 million relates to the restructuring of operation in the EMEA and Latin America region.

(b) Contingent liabilities

Certain of the Company's subsidiaries are involved in litigation in respect of which the Board of Directors consider that either the timing and outcome of the litigation is too uncertain to quantify at this stage and/or the possibility of an adverse outcome is remote and/or in the event that there was such an adverse outcome, the financial consequence is not likely to be material. The Group continues to actively monitor and defend such litigation.

An Oriflame sales subsidiary is contesting in court a custom duty claim of €6.0 million out of which the Group provided €1.5 million in claims and other provision based on management's best estimate.

(c) Minimum lease commitments

The Group has minimum annual lease commitments under non-concellable operating leases at 31 December as follows:

€'000	2011	2010
Within one year	22,304	22,152
Between one and three years	30,554	32,459
Between three and five years	17,925	16,957
Over five years	4,718	4,159
	75,501	**75,727**

The Group's lease agreements consist mainly of office and warehouse rentals, none of which are individually significant. There are no subleases.

During the year ending 31 December 2011 €35.0 million (€34.7 million) was recognised as an expense in the consolidated income statements in respect of operating leases.

(d) Bank guarantees

At 31 December 2011, the Group had bank guarantees in place of €8.0 million (€9.9 million).

Note 27 • Pensions

All subsidiaries within the Group operate defined contribution schemes. Pension costs charged for the year for these schemes amounted to €5.8 million (€5.4 million).

Note 28 • Financial instruments and financial risk management

28.1 Financial risk factors

Overview

The Group has exposure to the following risks from its use of financial instruments:
- Market risk
- Credit risk
- Liquidity risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

I Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates or interest rates will affect the Group's income or the value of its holdings of financial instruments. The market risk management objective is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Group buys and sells derivatives in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks. Generally the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

(a) Foreign currency risk

Translation exposure

Translation exposure arises because the profits and losses and assets and liabilities of operating subsidiaries are reported in the respective currencies of their country of incorporation. Profits and losses and assets and liabilities in the various local currencies are translated into euros, the presentation currency. For those countries with a functional currency other than the euro, profits and losses are translated at average exchange rates and assets and liabilities are translated at closing exchange rates. Fluctuations in exchange rates against the euro will give rise to differences. These differences are recorded as translation gains or losses in shareholders' equity.

Transaction exposure

Currency transaction exposure arises whenever a subsidiary enters into a transaction using a currency other than its measurement currency. If the relevant exchange rates move between the date of the transaction and the date of final payment, the resulting currency balance will produce a gain or loss on exchange. Such gains or losses are included in financial income and expenses.

Strategic currency exposure

Strategic currency exposure arises in countries, which are not part of the European Monetary Union (EMU), or whose currencies are not pegged to the euro. When the exchange rate of the non-EMU currencies fluctuates against the euro, it affects the gross margin in those countries, as approximately 58 percent (64 percent) of the Group's products are sourced and produced within the EMU.

The objective of the Group is to hedge any currency transaction exposure by seeking to match revenues and costs or to match asset and liabilities in the same currency. However, given the geographical diversity of the Group's operations, a significant portion of sales is generated in currencies other than those in which the majority of expenses are incurred. In circumstances where revenues and costs cannot be matched, the currency transaction exposure may be hedged by periodically adjusting prices or by entering into hedging transactions.

The Group hedges up to 100 percent of selected currency transaction exposures by entering into a variety of forward contracts in currencies in which subsidiaries of the Group transact business, to the extent that forward contracts are available in the market at a reasonable cost.

The Group has also decided to hedge the foreign exchange rate risk of selected forecasted foreign currency denominated sales, which present an exposure to variations in cash flows that could ultimately affect profit or loss.

As at 31 December 2011 there were a variety of forward exchange contracts and options outstanding for an amount equivalent of €128 million (€9 million) with maturities ranging from January 2012 to December 2013, to hedge selected currency transaction exposures and highly probable forecast transactions.

The group uses a variety of forward contracts amounting to €100.4 million at nominal value (€9 million) to economically hedge monetary assets and liabilities in foreign currencies, mainly intra-group. The derivatives are not designated as hedge accounting relationships and therefore the changes in fair value of the forward contracts and the foreign exchange gains and losses relating to the monetary assets and liabilities are recognised in the consolidated income statement. At 31 December 2011, the fair value of these forward contracts was €0.9 million loss (€0.1 million loss).

During 2011 the Group closed in total €63.0 million (€82.4 million) forward contracts related to the above mentioned variety of forward contracts. The total net realised result on all forward contracts closed in 2011 was €0.3 million loss (€0.1 million loss).

The Group claims cash flow hedge accounting for the variety of forward contracts and options amounting to €27.6 million at nominal value (€0 million) that hedge the cash flow variability due to foreign currency risk inherent in either future transactions that result in recognition of non-financial liability or highly probable forecast transactions, mainly intra-group. The effective portion of changes in the fair value of derivatives is recognised in other comprehensive income within equity. The ineffective portion of the gain or loss is recognised immediately in the income statement. At 31 December 2011, the fair value of these forward contracts and options was €0.2 million loss (€0 million).

In July 2011, the Group successfully entered into a €25 million and $195 million loan in the U.S. private placement market (USD loan) and at the same time entered into a series of cross currency interest rate swaps, effectively converting USD denominated private placement loan proceeds and obligations (principal and semi annual interest) into euro denominated flows. The Group designated $70 million loan maturing in July 2021 as financial liability at fair value through profit and loss. Both the $70 million loan and the related cross currency interest rate swaps are measured at fair value in the consolidated financial statements. The Group accounts for the $75 million loan maturing in July 2018 and $50 million loan maturing in July 2023 as a financial liability at amortised costs. The Group applies cash flow hedge accounting for related cross currency interest rate swaps, where the effective portion of changes in the fair value of cross currency interest rate swaps is recognised in other comprehensive income within equity and the ineffective portion of the gain or loss is recognised immediately in the consolidated financial statements.

In March 2011, the Group signed RUB 1.5 billion one-year uncommitted revolving credit facility. The facility was drawn in full in April 2011 to further reduce the rouble transaction exposure. Similarly during 2011 the Group entered into PLN 42 million loan under the €330 million facility to reduce the Polish zloty exposure.

In July 2011, the Group prematurely repaid a SEK560 million loan under the €330 million facility and unwound before maturity in November 2012 a cross currency interest rate swap which converted the SEK loan into a Euribor 6-month loan.

In April 2010, the Group successfully entered into a $165 million loan in the U.S. private placement market (USD loan) and at the same time entered into a series of cross currency interest rate swaps, effectively converting USD denominated private placement loan proceeds and obligations (principal and semi annual interest) into euro denominated flows. The Group designated the USD loan as financial liability at fair value through profit and loss. Both the USD loan and related cross currency interest rate swaps are measured at fair value in the consolidated financial statements.

Exposure to currency risk

The Group's exposure for some of it's main currencies was as follows:

2011	CLP	CZK	MXN	KZT	PLN	RUB	SEK	TRY	UAH	IDR
In €'000 equivalents										
Intra-group trading balances	3,356	4,421	7,434	5,632	3,158	142,952	2,991	4,885	41, 815	3,894
Trade receivables / (payables)	–	–	–	–	(5,014)	(35,996)	(1,979)	–	–	–
Gross balance sheet exposure	**3,356**	**4,421**	**7,434**	**5,632**	**(1,856)**	**106,956**	**1,012**	**4,885**	**41,815**	**3,894**
Forward exchange rate contracts	–	–	–	*(2,481)	(9,318)	(60,162)	–	(3,478)	(21,068)	*(13,460)
Net Exposure	**3,356**	**4,421**	**7 ,434**	**3,151**	**(11,174)**	**46,794**	**1,012**	**1,407**	**20,747**	**(9,566)**

2010	CLP	CZK	MXN	KZT	PLN	RUB	SEK	TRY	UAH	IDR
In €'000 equivalents										
Intra-group trading balances	4,964	2,591	8 ,549	11,280	(12,889)	87,966	11,235	3,985	42,925	5,649
Trade receivables / (payables)	–	–	–	–	5,396	–	(8,425)	–	–	–
Gross balance sheet exposure	**4,964**	**2,591**	**8,549**	**11,280**	**(7,493)**	**87,966**	**2,810**	**3,985**	**42,925**	**5,649**
Forward exchange rate contracts	(2,000)	(1,000)	*(819)	*(615)	–	–	–	–	(2,204)	*(565)
Net Exposure	**2,964**	**1,591**	**7,730**	**10,665**	**(7,493)**	**87,966**	**2,810**	**3,985**	**40,721**	**5,084**

* The forward exchange rate contracts are € against USD.

The following significant exchange rates applied during the year:

	Average rate		Reporting date rate	
€	2011	2010	2011	2010
RUB	40.88	40.08	41.67	40.33
KZT	204.06	194.28	191.72	195.23
UAH	11.11	10.50	10.30	10.57
PLN	4.12	4.00	4.46	3.96

Sensitivity analysis

The Group trades in more than forty currencies. The Group has selected the top four sales operations and shows their impact on operating profit and equity. This analysis assumes that all other variables, in particular interest rates, the exchange rates of other currencies to the euro, the selling prices of the Oriflame entities in the countries under review, remain constant over the year. The analysis is performed on the same basis for 2010. 1 percent strengthening of the euro against the following currencies on average over the reporting year would have increased (decreased) the Group operating profit or loss and equity as shown below.

Effect on Group operating profit in %	2011	2010
RUB	(1.5)	(1.6)
UAH	(0.4)	(0.5)
KZT	(0.2)	(0.3)
PLN	(0.2)	(0.1)

Effect on Group equity in € million	2011	2010
RUB	(1.2)	(1.2)
UAH	0.1	0.0
KZT	(0.1)	(0.2)
PLN	(0.6)	(0.7)

(b) Interest rate risk

Hedge

In July 2011, when the Group entered into a $75 million and $50 million loan in the U.S. private placement market (USD loan) and linked cross currency interest rate swaps, the Group effectively created fixed-rate euro obligations. These loans are accounted as financial liability at amortised costs. The Group applies cash flow hedge accounting for related cross currency interest rate swaps.

Not designated as hedge

In April 2010, when entering into the $165 million USD loan and linked cross currency interest rate swaps, the Group effectively created a floating rate of 6-month Euribor obligation, receiving USD denominated semi annual fixed swap rate and paying 6-month Euribor plus spread under the cross currency interest rate swaps, which the Group decided to hedge economically through series of interest rate cap agreements, totalling €121.3 million. The caps protect against a rise of 6-month Euribor over 4 percent and do not qualify for cash flow hedge accounting treatment under IAS 39, since the underlying hedged item is a derivative itself.

In July 2011, when entering into the $70 million USD loan and linked cross currency interest rate swaps, the Group effectively created a floating rate of 3-month Euribor obligation, receiving USD denominated semi annual fixed swap rate and paying 3-month Euribor plus spread under the cross currency interest rate swaps, which the Group decided to hedge economically through series of interest rate cap agreements, totalling €49.0 million. The caps protect against a rise of 3-month Euribor over 4.5 percent and do not qualify for cash flow hedge accounting treatment under IAS 39, since the underlying hedged item is a derivative itself.

During 2011, the Group started to finance its subsidiaries in their functional currency. Consequently, the RUB loan and the PLN loan were drawn down to match the interest rates. Both loans have variable interest rates.

In July 2011, the Group decided to prematurely repay the SEK560 million loan under the €330 million facility and unwind before maturity in November 2012 related cross currency interest rate swap which converted the SEK loan into a Euribor 6-month loan.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) other comprehensive income within equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2010.

	Profit or (loss)		Other comprehensive income within equity	
Effects in €'000	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
31 December 2011				
Variable rate interest-bearing liabilities	(1,267)	1,267	–	–
Interest rate caps	3,803	(2,380)	–	–
Cross currency interest rate swaps	1,771	(1,849)	7,817	8,512
Cash flow sensitivity (net)	**4,307**	**(2,962)**	**7,817**	**8,512**
31 December 2010				
Variable rate interest-bearing liabilities	(1,878)	1,878	–	–
Interest rate caps	3,638	(2,500)	–	–
Interest rate swaps	1,137	(1,192)	–	–
Cash flow sensitivity (net)	**2,897**	**1,814**	**–**	**–**

II Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

There is a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Management performs ongoing evaluations of the credit position of its consultants. Due to the nature of the direct sales industry, the Group does not have significant exposure to any individual customer. (See note 17.)

At reporting date there was no significant concentration of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position:

€'000	2011	2010
Trade and other receivables	75,172	81,981
Cash and cash equivalents	137,040	86,248
Interest rate caps for trading	3,042	3,813
Forward exchange rate contracts for trading	1,029	98
Forward exchange rate contracts for hedging	187	–
Options for hedging	273	–
Cross currency interest rate swaps for trading	27,730	7,912
Cross currency interest rate swaps for hedging	9,669	–
	254,142	**180,052**

III Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

31 December 2011 €'000	Carrying amount	Contractual cash flows	Less than 1 year	1–3 years	3–5 years	More than 5 years
Non-derivative financial liabilities						
Loans	367,585	(408,866)	(54,155)	(26,054)	(54,295)	(274,362)
Finance lease liabilities	39	(41)	(39)	(2)	–	–
Trade and other payables	87,018	(87,018)	(87,018)	–	–	–
Bank overdrafts	100	(100)	(100)	–	–	–
Derivative financial liabilities						
Cross currency interest rate swaps for trading	1,513	(1,513)	(1,513)	–	–	–
Forward exchange rate contracts for trading	1,952	(1,952)	(1,952)	–	–	–
Cross currency interest rate swaps for hedging (cash flow hedge)	1,033	(1,033)	(1,033)	–	–	–
Forward exchange rate contracts for hedging (cash flow hedge)	622	(622)	(622)	–	–	–

31 December 2010 €'000	Carrying amount	Contractual cash flows	Less than 1 year	1–3 years	3–5 years	More than 5 years
Non-derivative financial liabilities						
Loans	284,564	(335,310)	(13,038)	(171,902)	(29,827)	(120,543)
Finance lease liabilities	45	(48)	(36)	(12)	–	–
Trade and other payables	101,370	(101,370)	(101,370)	–	–	–
Bank overdrafts	215	(215)	(215)	–	–	–
Derivative financial liabilities						
Cross currency interest rate swaps for trading	1,117	(1,117)	(1,117)	–	–	–
Forward exchange rate contracts for trading	199	(199)	(199)	–	–	–

28.2 Capital risk management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors has adopted a dividend policy to the effect that, absent changes in the Group's operations or capital structure, Oriflame intends to distribute, over the long term, at least 50 percent of the Group's annual profit after tax as dividends.

The €330 million facility, and the USD loans dated April 20, 2010 and July 13, 2011, oblige the Group to maintain consolidated net worth of €120 million at each year end for the term of the agreement. Consolidated net worth is defined in the agreements as the total assets of the Group and its subsidiaries which would be shown as assets on a consolidated balance sheet of the Group as of such time prepared in accordance with IFRS, after eliminating all amounts properly attributable to minority interests, if any, in the stock and surplus of subsidiaries; minus the total liabilities of the Group and its subsidiaries which would be shown as liabilities on a consolidated balance sheet of the Group as of such time prepared in accordance with IFRS.

No changes were made in the objectives, policies, or processes for managing capital during the years ended 31 December 2011 and 31 December 2010.

28.3 Fair value estimation

The fair values of financial assets and liabilities, together with the carrying amounts shown in the consolidated statements of financial position are as follows:

	31 December 2011		31 December 2010	
€'000	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets carried at amortised cost				
Trade and other receivables	75,172	75,172	81,981	81,981
Cash and cash equivalents	137,040	137,040	86,248	86,248
Total loans and receivables	*212,212*	*212,212*	*168,229*	*168,229*
Total financial assets carried at amortised cost	**212,212**	**212,212**	**168,229**	**168,229**
Financial assets carried at fair value				
Cross currency interest rate swaps for trading:	27,730	27,730	7,912	7,912
Interest rate caps for trading:	3,042	3,042	3,813	3,813
Forward exchange rate contracts for trading:	1,029	1,029	98	98
Total derivatives for trading	*31,801*	*31,801*	*11,823*	*11,823*
Cross currency interest rate swaps for hedging:	9,669	9,669	–	–
Forward exchange rate contracts for hedging:	187	187	–	–
Options for hedging:	273	273	–	–
Total derivatives for hedging	*10,129*	*10,129*	*–*	*–*
Total derivative financial assets	*41,930*	*41,930*	*11,823*	*11,823*
Total financial assets carried at fair value	**41,930**	**41,930**	**11,823**	**11,823**

	31 December 2011		31 December 2010	
€'000	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial liabilities carried at amortised cost				
Loans	(168,526)	(184,694)	(158,095)	(159,809)
Trade and other payables	(87,018)	(87,018)	(101,370)	(101,370)
Finance lease liabilities	(39)	(41)	(45)	(47)
Bank overdrafts	(100)	(100)	(215)	(215)
Total financial liabilities carried at amortised cost	**(255,683)**	**(271,853)**	**(259,725)**	**(261,442)**
Financial liabilities carried at fair value				
USD loan	(199,059)	(199,059)	(126,470)	(126,470)
Total designated as such upon initial recognition	*(199,059)*	*(199,059)*	*(126,470)*	*(126,470)*
Cross currency interest rate swaps for trading	(1,513)	(1,513)	(1,117)	(1,117)
Forward exchange rate contracts for trading	(1,952)	(1,952)	(199)	(199)
Total derivatives for trading	*(3,465)*	*(3,465)*	*(1,316)*	*(1,316)*
Cross currency interest rate swaps for hedging	(1,033)	(1,033)	–	–
Forward exchange rate contracts for hedging	(622)	(622)	–	–
Total derivatives for hedging	*(1,655)*	*(1,655)*	*–*	*–*
Total derivative financial liabilities	*(5,120)*	*(5,120)*	*(1,316)*	*(1,316)*
Total financial liabilities carried at fair value	**(204,179)**	**(204,179)**	**(127,786)**	**(127,786)**
Unrecognised loss		(16,170)		(1,716)

Trade and other receivables

The fair value of trade and other receivables is equal to carrying value given its short-term nature.

Trade and other payables

The fair value of trade and other payables is equal to carrying value given its short-term nature.

Derivative financial assets and liabilities

The fair value of forward exchange contracts, interest rate swaps, cross currency interest rate swaps and options are based on their market quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the reporting date. The fair value of interest rate caps is the estimated amount which the Group would receive or pay when unwinding the caps at the reporting date.

Financial liabilities at amortised costs

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the forward market rate of interest at the reporting date.

Financial liabilities carried at fair value designated as such upon initial recognition

The fair value of the USD loans is calculated by discounting the cash flows associated to the loan schedule for the life of the loan at the market interest rates prevailing for such type and currency of loan as of the reporting date. No changes in the credit risks were done for this calculation as there have been no changes in the financial condition of the Group since the inception of the USD loans.

Note 28.4 Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

€'000	Level 1	Level 2	Level 3	Total
31 December 2011				
USD loan	–	(199,059)	–	(199,059)
Derivative financial assets	–	41,930	–	41,930
Derivative financial liabilities	–	(5,120)	–	(5,120)
	–	**(162,249)**	**–**	**(162,249)**

€'000	Level 1	Level 2	Level 3	Total
31 December 2010				
USD loan	–	(126,470)	–	(126,470)
Derivative financial assets	–	11,823	–	11,823
Derivative financial liabilities	–	(1,316)	–	(1,316)
	–	**(115,963)**	**–**	**(115,963)**

Note 29 • Restructuring and impairment Iran

a) Restructuring

The restructuring costs of €5.9 million (€0.7 million) are included in the Administrative expenses.

€'000	2011	2010	
EMEA	3.2	0.7	Restructuring of operations
Latin America	0.3	–	Implementation of Shared Service Center
All other segments	1.1	–	Denmark sales reorganisation
Unallocated items	1.3	–	Reorganisation
Total Restucturing costs	**5.9**	**0.7**	

b) Impairment Iran

In August 2010, the Iranian authorities closed Oriflame's operation in Teheran. Oriflame has to date not been presented with any formal allegation as to the reason of this closure. An impairment of all balance sheet positions of €8.5 million was set up in 2010 as a result of the uncertain situation. In 2011, the group deconsolidated its Iranian subsidiary which had no impact on the 2011 consolidated income statements.

The impact of this impairment in 2010 on the balance sheet positions was as follows:

€'000	2010
Property, plant and equipment	(452)
Inventories	(6,778)
Other receivables	(904)
Cash and cash equivalents	(1,356)
Other balance sheet positions	995
Impairment on the balance sheet positions	**(8,495)**
Other expenses in the consolidated income statements	(2,550)
	(11,045)

The breakdown of the Iranian impairment loss by function in the consolidated income statements 2010 was:

€'000	2010
Cost of sales	(6,778)
Selling and marketing expenses	(275)
Administrative expenses	(2,998)
Impairment Iran in operating profit	**(10,051)**
Write-off of cash and cash equivalents	(1,356)
Impact on foreign exchange, net	36
Net financing costs	**(994)**
	(11,045)

Note 30 • Hyperinflation

Belarus was operating in a hyperinflationary economy during the year ended 31 December 2011.

The financial statements of the sales company in Belarus are based on the historical costs approach. The restatement was calculated using the conversion factors derived from the Consumer Price Index (CPI), published by the Ministry of Statistics and Analysis of the Republic of Belarus.

The CPI at 31 December 2011 was amounting to 108.7. The increase of the index during the period was 108.7 percent and 9.9 percent during previous period.

In the net foreign exchange loss included in the financial expenses is a gain of €3.1 million related to net monetary position.

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

TO THE SHAREHOLDERS OF ORIFLAME COSMETICS S.A.

Report on the consolidated financial statements

Following our appointment by the General Meeting of the Shareholders dated 19 May 2011, we have audited the accompanying consolidated financial statements of Oriflame Cosmetics S.A., which comprise the consolidated statement of financial position as at 31 December 2011 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 69 to 90.

Board of Directors' responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the Réviseur d'Entreprises agréé

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgement of the Réviseur d'Entreprises agréé, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements, as set out on pages 69 to 90, give a true and fair view of the consolidated financial position of Oriflame Cosmetics S.A. as of 31 December 2011, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

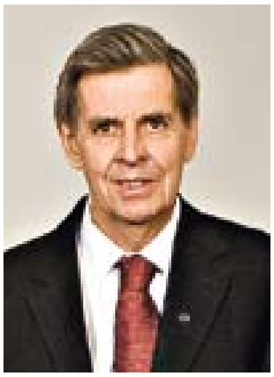
The consolidated directors' report, including the corporate governance statement, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements and includes the information required by the law with respect to the Corporate Governance Statement.

Luxembourg, 16 April 2012

KPMG Luxembourg S.à r.l.
Cabinet de révision agréé

D.G. Robertson

BOARD OF DIRECTORS



Robert af Jochnick

Chairman of the Board

Born in 1940.

Co-founder of Oriflame.

Elected to the Board in 1970.

Member of the Nomination Committee and the Remuneration Committee.

LLB Stockholm University and BSc in Business Administration Stockholm School of Economics.

Chairman of Credus Management AB, Mint Capital Ltd and the af Jochnick Foundation. Board member of Medicover Holding S.A., the World Childhood Foundation, GoodCause Foundation, GoodCause Holding AB and Research Institute of Industrial Economics.

Shareholding in Oriflame as at 31 December 2011*: 3,491,519.

Not independent from the Company nor its major shareholders.

Jonas af Jochnick

Board Member

Born in 1937.

Co-founder of Oriflame.

Elected to the Board in 1970.

Member of the Audit Committee.

LLB Stockholm University. MBA Harvard Business School and Dr h c Stockholm School of Economics.

Chairman of Medicover Holding S.A. and Celox S.A. Board member of Oresa Ventures S.A.

Shareholding in Oriflame as at 31 December 2011*: 4,303,500.

Not independent from the Company or its major shareholders.

Alexander af Jochnick

Board Member

Born in 1971.

Elected to the Board in 2007.

BSc in Business Administration Stockholm School of Economics.

Board member of CL Intressenter AB, Credus Management AB and NC Holding AB. Founder and board member of Serious Nature AB.

Shareholding in Oriflame as at 31 December 2011*: 418,884.

Not independent from the Company nor its major shareholders.

Magnus Brännström

Chief Executive Officer, CEO

Born in 1966.

Elected to the Board in 2005.

Law studies and MSc, Uppsala University.

Shareholding in Oriflame as at 31 December 2011*: 271,921.

Not independent from the Company being CEO.

Lilian Fossum Biner

Board Member

Born in 1962.

Elected to the Board in 2007.

Member of the Remuneration Committee.

BSc Stockholm School of Economics

Board member of Retail and Brands AB, Melon Fashion Group OJSC, Thule Group AB, Givaudan SA and a-connect ag.

Shareholding in Oriflame as at 31 December 2011*: 1,000.

Independent from the Company and its major shareholders.




Christian Salamon

Board Member

Born in 1961.

Elected to the Board in 1999.

Member of the Audit Committee.

MSc Royal Institute of Technology. MBA Harvard Business School.

Chairman of the Board of OSM Holding AB and NCAB Holding AB. Board member of Lamiflex International AB, Unlimited Travel Group AB and Oresa Ventures S.A. Advisory board member of Sustainable Technologies Fund, and Investment Committee member of Fagerberg & Dellby.

Shareholding in Oriflame as at 31 December 2011*: 14,940.

Independent from the Company and its major shareholders.

Helle Kruse Nielsen

Board Member

Born in 1953.

Elected to the Board in 2005.

Member of the Audit Committee.

BSc Copenhagen Business School.

Board member of New Wave Group AB, Gumlink A/S, Nils Adlers Stipendiefond, Aker BioMarine ASA and Lantmännen ek för.

Shareholding in Oriflame as at 31 December 2011*: 1,000.

Independent from the Company and its major shareholders.

Marie Ehrling

Board Member

Born in 1955.

Elected to the Board in 2007.

Member of the Audit Committee.

BSc Stockholm School of Economics.

Vice Chairman of Nordea Bank AB. Board member of Axel Johnson AB, Securitas AB, Schibsted ASA, Loomis AB, Invest Sweden, Safegate AB, World Childhood Foundation, IVA and CASL at Stockholm School of Economics. Chairman of Norwegian Swedish Chamber of Commerce.

Shareholding in Oriflame as at 31 December 2011*: 300.

Independent from the Company and its major shareholders.

Anders Dahlvig

Board Member

Born in 1957.

Elected to the Board in 2010.

BSc Business Administration Lund University, MA Economics University of California.

Chairman of the New Wave Group.

Board member of Kingfisher plc, Hennes & Mauritz AB, Axel Johnsson AB and Resurs Bank AB.

Shareholding in Oriflame as at 31 December 2011*: 4,800.

Independent from the Company and its major shareholders.

*Shareholding may include holdings of related entities and immediate family members as per the IFRS definition of related parties.

GLOBAL SENIOR MANAGEMENT TEAM

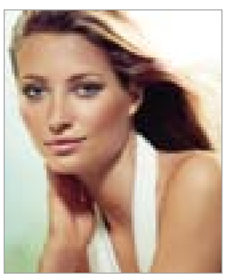
Brännström, Magnus	CEO & President
Katrin Alakbarov	VP Central Asia and MD Kazakhstan
Michaela Beltcheva	VP Government and Legal Affairs
Gabriel Bennet	CFO
Kjell Blydt-Hansen	VP Finance Supply
Michael Cervell	SVP Global Brand and Communications and Strategic Business Development
Robin Chibba	VP Finance Latin America
Tatiana Egorova	VP Finance CIS & Baltics
Thomas Ekberg	SVP and Head of EMEA
Mathias Ericsson	VP Quality and Process Management
Niklas Frisk	VP and Head of South Asia and MD India
Konrad Gluchowsky	VP Supply Chain & Operations CIS
Carlos Gonzalesguerra	VP Finance EMEA
Neil Holden	VP New Product Developmrnt and Artwork
Torsten Hustert	VP Finance Marketing and R&D
Didier Jourdan	VP Planning
Christian Jönsson	VP Global Shared Services
Sergei Kanashin	SVP and Head of Latin America
Georgi Karapanchev	VP Group Finance
Stefan Karlsson	SVP and Head of Asia
Jonathan Kimber	EVP Global Supply
Edwin Koehler	VP Purchasing
Johan Larsson	VP EMEA Central and MD Poland
Mary Lord	SVP Research & Development
Pavlina Marinova	VP Sales Operations Development
Jesper Martinsson	COO
Pontus Muntzig	VP Finance Asia
Yura Mykhaylyuk	VP Russia
Mats Palmquist	SVP and Head of CIS & Baltics
Jolanta Pastor	VP Product Marketing
Joanna Poplawska	SVP Manufacturing
Johan Rosenberg	EVP Global Marketing and R&D
Antonia Simon-Stenberg	Senior Advisor Environmental Sustainability
Olga Svechnikova	VP Regional Marketing CIS & Baltics
Stephen Syrett	VP Catalogue Planning & Forecasting
Tesselschade van Dijk Naaijkens	VP Human Resources
Fredrik Widell	VP and Head of Asia Pacific
Anders Ågren	VP Finance Sales and Operations

FINANCIAL CALENDAR 2012

- First quarter 2012 on 27 April
- Annual General Meeting on 21 May
- Second quarter 2012 on 14 August
- Third quarter 2012 on 13 November

Distribution principles

The annual report is available at www.oriflame.com, as are interim reports, previous annual reports and other financial materials.



Front cover:
One of the corporate
brand images.

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ORIFLAME
SWEDEN

Reports and information can be obtained from:
www.oriflame.com