ANNUAL REPORT 2012

ORIFLAME

SWEDEN

Quick guide

Company overview

Oriflame

The combination of an attractive beauty offering, an easily accessible business opportunity and an organisation of passionate people creates the foundation for 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 day they join and work towards fulfilling their personal dreams and ambitions.

A sales force of approximately 3.4 million independent Oriflame Consultants has seized this opportunity and is successfully marketing Oriflame's extensive portfolio of beauty products, creating combined 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 through products inspired by the natural beauty associated with Sweden. Rather than investing in a chain of stores, they decided to move the retail operations into the homes of Swedish consumers. For over 45 years, Oriflame has remained true to its original concept of beauty products inspired by Swedish nature and an entrepreneurial spirit. Today, Oriflame is a global beauty company selling direct on four continents.

PRODUCT OFFERING

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

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

Oriflame offers products in 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

1994	1995	1996	1997	1998	2000	2001	2002	2003	2005	2006	2008	2011	2012
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	Pakistan Kyrgyzstan	Algeria	Kenya Uganda Tanzania




Strategic cornerstones

Oriflame's overall objective is to create profitable growth through an attractive beauty offering and an easily accessible business opportunity for its Consultants. Its extensive geographical footprint, with operations in some of the growth markets with the highest potential in the world, and very strong market positions in a number of more mature markets, provides a solid basis for further opportunities. Oriflame strives for optimised resource allocation to achieve sourcing and operational efficiency with a sustainable profile. The strategic initiatives come 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 consumer demands, the portfolio is developed constantly with a high level of product renewal each year. In late 2012, Oriflame launched its new brand promise "Your Dreams – Our Inspiration™", to further emphasise the aim of becoming the company that best understands people's dreams.

NETWORK MARKETING

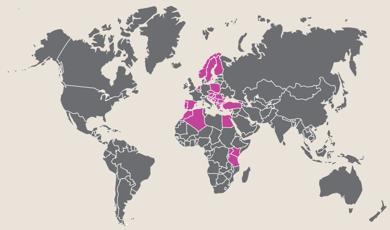
By continuously improving the consumer offering and earnings opportunities, Oriflame will attract an increasing number of Consultants. In order to be the preferred brand, Oriflame shall offer the most attractive success plan and training opportunities. The key marketing tool is a frequently distributed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

WORLD CLASS SERVICE

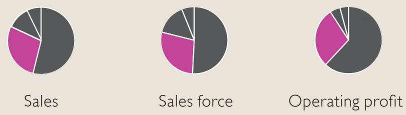
Oriflame strives to constantly cut lead times, raise service levels and build capacity closer to the customer to support growth, all in a sustainable manner. Flexible and user-friendly systems support the work of Oriflame Consultants and employees and contribute to efficiency throughout the organisation.

PEOPLE & CULTURE

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



Markets



CIS & Baltics

Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Mongolia, Russia, Ukraine

2012 DEVELOPMENT IN BRIEF

- Local currency sales decreased by 4%
- Average sales force decreased by 13% to 1.8 million Oriflame Consultants
- Sales in the region's largest market Russia decreased by 6% in local currency

Development impacted by a general weak demand for cosmetics in some of the core markets leading to high churn of less productive Oriflame Consultants partly offset by productivity improvements.

OPERATIONS

PRODUCTION

Moscow, Russia – Global factory supplying all regions. Lipsticks, Lipglosses
Noginsk, Russia currently under construction

GROUP DISTRIBUTION CENTRES

Kiev, Ukraine – Serving the Ukrainian market.
Noginsk, Russia – Serving primarily the Russian market

OFFICES

Regional Office in Moscow, Russia

CATALOGUE PRINTING

Russia printed in Finland. All other CIS markets printed in Ukraine

EMEA

Algeria, Bosnia, Bulgaria, Croatia, Czech Rep., Egypt, Finland, Greece, Holland, Hungary, Kenya, Morocco, Macedonia, Montenegro, Norway, Poland, Portugal, Romania, Serbia, Slovakia, Slovenia, Spain, Sweden, Tanzania, Turkey, Uganda

2012 DEVELOPMENT IN BRIEF

- Local currency sales decreased by 1%
- Average sales force increased by 4% to 0.9 million Oriflame Consultants
- Sales growth strong in Northern Africa, Romania and Hungary
- Franchisee businesses in Kenya, Tanzania and Uganda acquired

Overall development impacted by weak consumer markets in Southern Europe with a negative effect on demand and productivity while recruitment was held up. Further efficiency improvements delivered good results within supply chain and administrative functions with margin improvement as a result.

OPERATIONS

PRODUCTION

Warsaw, Poland – Global factory supplying all regions. Skin Care, Body care/toiletries, Colour Cosmetics (colour emulsions)
Ekerö, Sweden – Global factory supplying all regions. Toiletries, Fragrances

GROUP DISTRIBUTION CENTRES

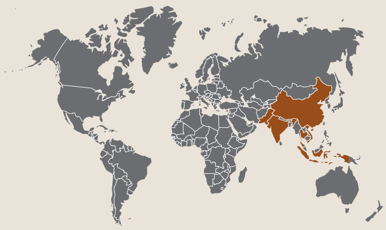
Warsaw, Poland – Serving nine markets,
Budapest, Hungary – Serving eight markets, three additional markets to be added in 2013

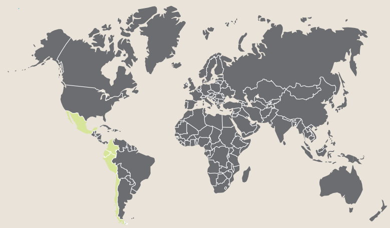
OFFICES

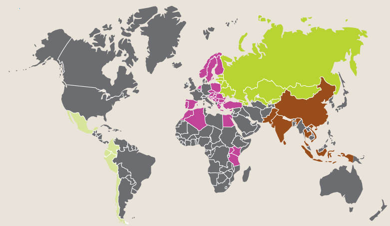
Regional Office in Warsaw, Poland

CATALOGUE PRINTING

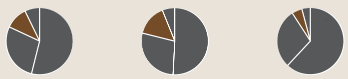
Romania, Egypt and Turkey printed locally in each market. All other EMEA markets printed in Poland



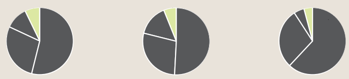




Markets



Sales | Sales force | Operating profit



Sales | Sales force | Operating profit

Sales | Sales force | Operating profit

Asia

China, India, Indonesia, Pakistan, Sri Lanka, Thailand, Vietnam

2012 DEVELOPMENT IN BRIEF

- Local currency sales increased by 12%
- Average sales force increased by 5% to 0.5 million Oriflame Consultants
- Sales growth strong in China, India and Indonesia

Solid sales development supported by further investments in supply chain and management in order to meet the future growth potential.

OPERATIONS

PRODUCTION

Noida, India – Skin Care, Body care/toiletries, Colour Cosmetics
Kunshan and Beijing, China – Skin Care, Body care/toiletries, Colour Cosmetics, Wellness

OFFICES

Regional Office in Bangkok, Thailand

CATALOGUE PRINTING

Printed locally in each market

Latin America

Chile, Colombia, Ecuador, Mexico, Peru

2012 DEVELOPMENT IN BRIEF

- Local currency sales increased by 8%
- Average sales force increased by 7% to 0.2 million Oriflame Consultants
- Sales growth strong in Mexico

Solid sales and margin development from leverage and overall good cost control.

OPERATIONS

OFFICES

Regional Office in Santiago, Chile

CATALOGUE PRINTING

Produced and printed in Chile for all Latin American markets

Group

Oriflame is currently present in more than 60 markets, including markets operated by franchisees

2012 DEVELOPMENT IN BRIEF

- Local currency sales decreased by 1%
- Average sales force decreased by 6% to 3.4 million Oriflame Consultants

Challenging year impacted by difficult conditions in core markets. Overall strategy delivering margin improvement and excellent cash flow.

OPERATIONS

PRODUCTION

Six production facilities in five countries plus one under construction

GROUP DISTRIBUTION CENTRES

Four Group Distribution Centres in four countries

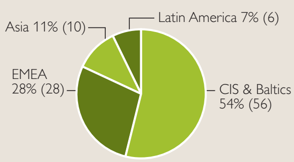
OFFICES

Corporate Offices in Fribourg, Switzerland and Luxembourg

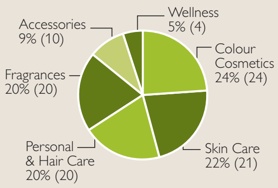
Group Support Offices in Dublin, Ireland, New Dehli, India, Prague, Czech Republic, Stockholm, Sweden, and Warsaw, Poland

Financial overview

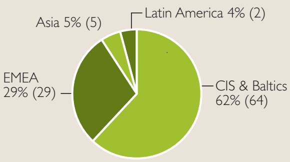
Regional sales 2012



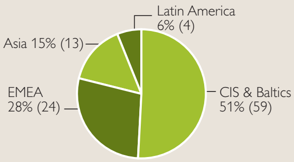
Sales by product category 2012



Regional operating profit 2012



Sales force 2012



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.

FINANCIAL ACHIEVEMENTS 2012

- Local currency sales decreased by 1% and Euro sales amounted to €1,489.3m (€1,493.8m).
- EBITDA amounted to €204.2m (€182.2m).
- Adjusted operating margin was 11.8% (11.0%) resulting in an adjusted operating profit of €175.1m (€164.1m).
- Adjusted net profit amounted to €121.5m (€105.7m) and adjusted EPS amounted to €2.13 (€1.86).
- Cash flow from operating activities improved to €183.7m (€135.3m).

KEY FIGURES

€ million unless stated otherwise	2012	2011
Sales	1,489.3	1,493.8
Gross profit	1,053.0	1,014.8
Gross margin, %	70.7	67.9
EBITDA	204.2	182.2
Adjusted operating profit	175.1	[1] 164.1
Adjusted operating margin, %	11.8	[1] 11.0
Adjusted net profit	121.5	[1] 105.7
Return on capital employed, ROCE, %	30.8	29.5
Cash flow from operating activities	183.7	135.3
Cash flow from operating activities, per share, €	3.22	2.37
Equity/assets ratio, %	31.9	27.0
Net interest-bearing debt	[2] 214.0	[2] 232.9
Interest cover	9.7	6.1
Adjusted earnings per share, diluted, €	2.13	[1] 1.86
Average sales force ('000)	3,385	3,599
Average number of full-time equivalent employees	7,465	7,898

THE SHARE

- Oriflame Cosmetics was introduced on the NASDAQ OMX Nordic Exchange on 24 March 2004.
- On 31 December 2012, the number of shareholders and SDR holders was 9,112. Each SDR represents one share.
- During 2012, an average of 265,410 shares were traded per day on the NASDAQ OMX Nordic Exchange.
- The last price paid on 28 December 2012 was SEK 206.60 giving Oriflame a total market capitalisation of SEK 11.8 billion.

DIVIDEND PROPOSAL

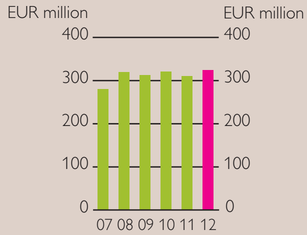
Oriflame's Board of Directors will propose a dividend for 2012 of €1.75 per share (€1.75), payable after the AGM to be held on 21 May 2013. As from the dividend on 2013 profits, payable in 2014, the Board of Directors intends to, in the year-end report 2013, propose a dividend to be determined by the AGM in May 2014 and to be paid out in four instalments in order to optimise the balance sheet over the year.

1) Before restructuring costs of €5.9m.

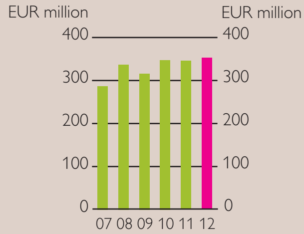
2) Net interest-bearing debt includes US Loan fair value. The net interest-bearing debt at hedged values would be €179.2m (31.12.2012) respectively €195.1m (31.12.2011).

SALES BY PRODUCT CATEGORY

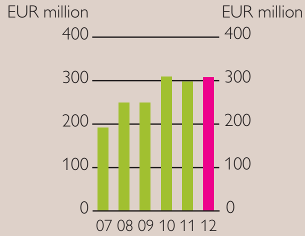
SKIN CARE



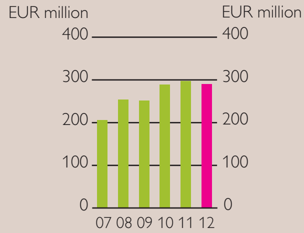
COLOUR COSMETICS



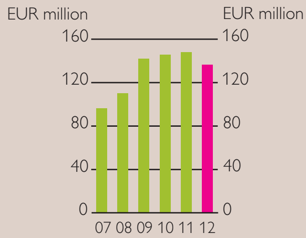
FRAGRANCE



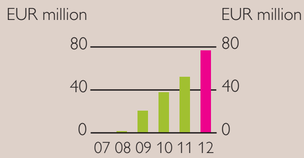
PERSONAL & HAIR CARE



ACCESSORIES



WELLNESS



Statement from the CEO

Strong profitability in a persistently weak market

2012 featured sustained economic uncertainty and weak consumption in many of Oriflame's core markets. Fewer active Oriflame Consultants led to slightly lower sales than in the previous year. Despite these challenges, our increasingly efficient organisation managed to deliver improved margins and a strong cash flow, while service levels to our Consultants were record-high. This provides us with a stable platform for restoring sustainable growth – our top priority in 2013.

There are many factors which lead me to take a positive view on Oriflame's further growth possibilities. We have an attractive product range, a flexible business model and presence in the key growth regions Asia, Latin America and Africa. Most importantly, we have a fantastic base of dedicated Oriflame Consultants and a strong offering to attract more of them.

GREATER FLEXIBILITY

When markets are challenging, the flexibility of Oriflame's business model is an asset. Our high proportion of variable costs reduces sensitivity to fluctuations in the economy and demand. The solid margin improvement in 2012 is testimony to our ability to adapt our operations to prevailing circumstances. We managed to significantly increase service levels to Consultants compared with the previous year, and achieved the highest levels since measurement started. Yet, we have reduced both inventory levels and inventory days. Key reasons for the improvement are better planning systems and enhancement of the global distribution network, through which we endeavour to get even closer to our customers.

Oriflame's business model is also highly suited to marketing and sales in online channels. During the year, we witnessed a sharp increase in both traffic to our websites and Oriflame Consultants' use of online tools. We definitely believe that the movement towards e-commerce and social selling will gain momentum in the future, providing us with additional growth opportunities.

GREATER INNOVATION

Oriflame's major flow of new product launches is a success factor in attracting new Consultants and customers. It enables us to always be at the cutting edge in terms of trends and revolutionary innovation. Our newest product group – Wellness – is the successful result of research within Oriflame's product development in collaboration with leading professors in the area. With a growing range of high quality health products, this category has enjoyed considerable success in all markets, and we anticipate increased interest in natural and healthy products at reasonable prices. Product development has also resulted in a growing offer of environmentally friendly, ethical products. We see these aspects gaining importance to Oriflame Consultants and employees in their wish to work for a responsible company, and to customers in their desire for credible products.

Our global innovative brand also enables us to attract global celebrities to endorse our products. In 2012 we launched our greatest partnership yet – with Hollywood megastar Demi Moore. The campaign and product series More by Demi generated a huge response and sales success which we are proud of, and which I believe paves the way for more exciting partnerships in the future.

GREATER PROFESSIONALISM – IN ALL ASPECTS

To summarise our initiatives during the year aimed at strengthening Oriflame, I would say that we have attained a new level of professionalism in the organisation. This encompasses work with product development, the income opportunity, brand building and, in particular, in our global supply chain processes. All parts of the Company have been involved in this process and have contributed their valuable input.

As we now stand a few months into 2013, we expect – once more – weak markets in many regions to persist for a while. We have already adapted to this, and Oriflame's clear ambition is to restore growth with sustained strengthened margins. I reiterate gladly that we have an attractive product offering and income opportunity, a broad presence in growth markets, a strong financial position and a flexible cost structure. These factors, combined with our professional and dedicated staff and Consultants, mean that Oriflame is well equipped to take on the challenge.

Magnus Brännström
CEO and President

The Oriflame Brand

– it's all about fulfilling dreams

The Oriflame brand is, and has always been, about fulfilling dreams. The many dreams of customers, Oriflame Consultants and employees around the world are what inspire the Company's development. By nurturing ideas, hopes and dreams, Oriflame strives to offer the latest beauty solutions for everybody and the most attractive business opportunity for its Consultants.

Oriflame is a beauty company selling direct. Its brand essence is fulfilling dreams – of beauty and personal development – in the spirit of its Swedish origins. The conviction is that beauty products that make people look their best in turn make them feel good, making them want to do their best and enjoy all the opportunities that life offers. By taking its inspiration from the many dreams of people around the world – dreams of beauty as well as of entrepreneurial success – and by offering an attractive opportunity to market its products, Oriflame aims to become the number one beauty company selling direct.

A LIVING HERITAGE

Oriflame's Swedish heritage goes back to the very first products containing natural birch extracts, and many of its products are still inspired by and contain ingredients from nature today. The Swedishness also means progressiveness, a constant pursuit of better solutions, capitalising on science, innovation and staying in tune with the times, fashion and trends.

With a strong ethical focus, Oriflame acts in an honest, transparent and fair way in all of its relationships. This results in the constant pursuit of sustainability in its business model, with focus on our planet, the people whose lives are touched by Oriflame and the communities in which it operates.

A CORPORATE CULTURE REFLECTED THROUGHOUT THE OPERATIONS

Oriflame's corporate culture was formed in the Company's early years out of passionate work and financial growth in a climate of fierce competition and tough challenges, and is a direct result of the approach that proved most stimulating and effective. Consistently throughout the organisation, Oriflame's corporate culture is built on principles such as respect for and belief in others, entrepreneurial spirit, customer focus and demands on quality, and is reflected throughout the operations and in Oriflame's approach to sustainability. Today, over 45 years after it was founded, Oriflame is an international beauty company still true to its brand's core identity – passionate about fulfilling dreams in a Swedish, natural, progressive and ethical way.

A GLOBAL BRAND WITH EXTENSIVE POTENTIAL

An important part of Oriflame's branding initiatives is global brand tracking; that is, regularly assessing awareness, perception and attractiveness of the brand in different markets. The results indicate that Oriflame has a strong brand with an established position in many of its markets and in some countries it is the number one cosmetics brand. In other markets where Oriflame started operations more recently, the brand is in a build-up phase with extensive potential for more brand adopters. The strategy is to build a global brand locally. Communication initiatives can be carefully tuned to a specific target group and market, but the perception of Oriflame must be the same globally.

INTEGRATED MARKETING ACTIVITIES

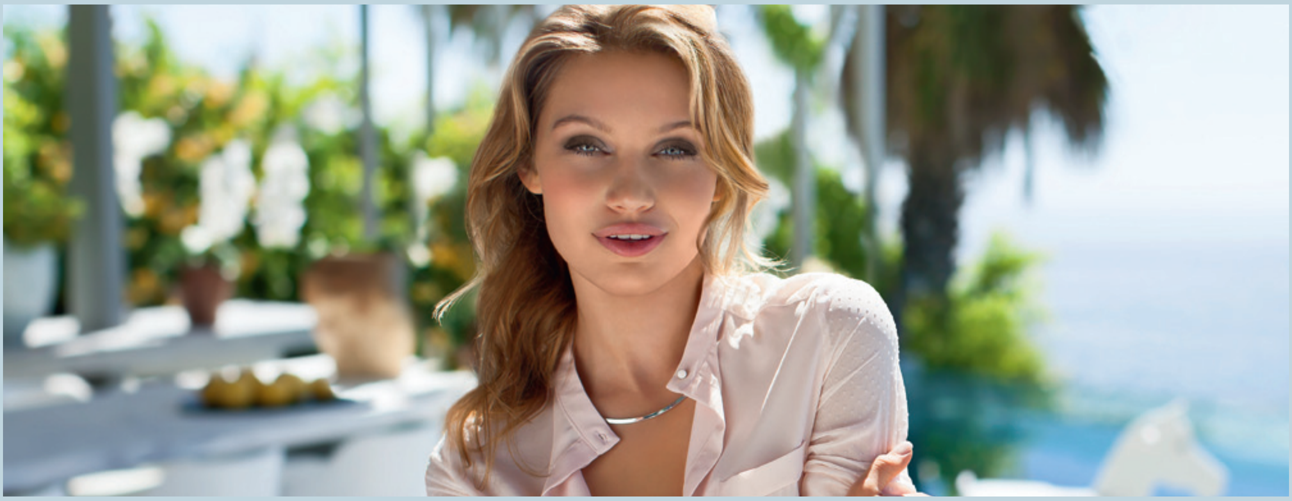
To ensure consistent brand building and facilitate these efforts throughout the organisation, Oriflame provides a common brand identity system. Also, the planning and preparing of marketing activities, advertising and PR are gradually becoming more integrated between the regions and global functions, while each country is responsible for adaptation and implementation in its respective market. More strategically planned marketing activities have proved effective and are also required to optimise the use of online channels and social media, which are crucial today.

In 2012, Oriflame implemented a process to define more closely its brand with the aim of making it stronger and more aligned, and to raise brand attractiveness among Oriflame Consultants, consumers and employees. Oriflame is to be perceived as the best in the world at understanding and caring for people's dreams. Its promise, Your Dreams – Our Inspiration™, is covering both the beauty offer and the business opportunity for Oriflame Consultants. This new brand promise has started to be implemented in the organisation and is to permeate all parts of the operations, from texts in the catalogues to how the products are developed and produced. Read more about Your Dreams – Our Inspiration™ on page 13.

BRANDING THROUGH PARTNERSHIPS

Oriflame foresees major potential for promoting the brand through well-matched partnerships with celebrities, specialists and organisations. In 2011, the Company started working with the Women's Tennis Association (WTA), and this partnership has been prolonged and extended to apply globally. The WTA inspires women around the world to look great, have fun and be the best they can be – a perfect setting for the Oriflame brand. This partnership was highly successful during its initial year, attracting a great deal of attention and media coverage around the world, helping to strengthen both the brand and the businesses of Oriflame Consultants. Going forward, more focus will be given to capitalising further on this partnership in social media and other digital channels.

By far the largest branding initiative in 2012 was Oriflame's teaming up with global movie star and icon Demi Moore for product development, endorsement and marketing. The partnership was launched at the Gold Conference for Oriflame Consultants in Stockholm in August, and Demi Moore presented her Oriflame collection of fragrances, More by Demi, which has been followed by additional products. This is the Company's single largest partnership ever and is receiving ample attention and interest globally.



Oriflame's new brand promise

"Your Dreams – Our Inspiration™"

For more than 45 years, Oriflame has been in the business of fulfilling dreams. Understanding and caring for people's dreams and providing them with the opportunity to change their lives for the better, have always been at the core of Oriflame's business model. In late 2012, Oriflame launched its new brand promise – "Your Dreams – Our Inspiration™" to emphasise this even further with the aim of becoming the company that best understands people's dreams.

The brand promise covers both the business opportunity and the beauty offer of Oriflame, and encapsulates the essence and spirit of the Oriflame community at large – striving to fulfil dreams. It is to permeate all parts of the Company's operations – from how the products are developed and presented in the catalogues, through how Oriflame Consultants and employees act and work, to how Oriflame conducts its business. A promise that will bring Oriflame even closer to its Consultants and consumers!

WE BELIEVE IN **DREAMS.**

A dream is individual and personal. Dreams and goals are beautiful and important. Oriflame is, and always has been, about fulfilling dreams. That is what we do. Every day. For people all over the world. Are you a dreamer? Do you have goals? Welcome.

WE BELIEVE IN **BEAUTY.**

Your beauty is as personal as your dreams. Through our unique beauty products created in Sweden, we have given millions of people the opportunity to change their lives for the better. When you look good, you feel good. And when you feel good, you are ready to go for your dreams.

WE BELIEVE IN **YOU.**

Our work starts with your dream. Your dreams are our inspiration. We encourage individuals to dream, and set their own goals. And we are a partner along the way. Our culture is based on respect for and belief in others. We listen to you. Together, we create a global network of beauty and dreams coming true. Would you like to fulfil your dreams? We do.

Hollywood luxury with Demi Moore

Throughout the years, Oriflame has worked with a large number of stars from all over the globe. In late 2012, the Company initiated the largest and most spectacular celebrity partnership in its more than forty-five year history – the collaboration with Hollywood actress and style icon Demi Moore, resulting in the collection "More by Demi".

A MATCH MADE IN FAIRY TALE HEAVEN

Known for her outstanding roles in a long line of Hollywood blockbusters, including Ghost and Charlie's Angels, Demi has, from humble beginnings, transformed herself into a sophisticated global celebrity. A true Hollywood star, her roles throughout the decades have epitomised strong and modern women, and she has become a true inspiration and style icon for women today – a perfect fit for Oriflame.

The fairy tale-inspired partnership was pre-launched at the global Gold Conference in Stockholm in August 2012 where around 10,000 Oriflame Consultants and employees saw Demi Moore take the stage to present the premium collection carrying her name. The exciting collaboration and products are also presented in a film in which the star is transformed into an enchanting Snow White, a captivating Red Riding Hood and a dazzling Cinderella, bringing out a mesmerising new side to the talented actress.

PREMIUM PRODUCTS FOR THE MODERN WOMAN

The collection – "More by Demi" – oozes intensity, sensuality and indulgence. Spanning cosmetics such as lipsticks, nail polishes, body butter and eau de parfum, an eye-catching range of accessories and an exquisite collection of classic jewellery, the entire collection is tailor-made for the modern woman. The products were launched from October 2012.

The collaboration with Demi Moore is by far Oriflame's largest celebrity partnership, in terms of impact and scope as well as budget and has already received ample attention and interest globally.

Watch the video for a closer look at the fairy tale partnership and "More by Demi" products.

The Business Model

– still proving valid

Oriflame's business model offers people around the world the opportunity to improve their lives, providing entrepreneurial challenges for Oriflame Consultants, attractive career opportunities for employees and unique shopping experiences for customers. Constantly encountering new conditions, opportunities and challenges, Oriflame's business model is still proving valid.

A RESILIENT 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 products and cosmetics, through products inspired by the natural beauty associated with Sweden. Rather than investing in a chain of stores, 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 businesses, often in countries where freedom of enterprise was discouraged or restricted to an elite. In that sense, Oriflame has helped to tear down walls. Oriflame built its first cosmetics factory in Warsaw after the fall of the Berlin wall and was early to enter countries such as Indonesia and India.

For over 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 an international beauty company with direct sales in more than 60 countries worldwide.

OFFERING A LEADING BUSINESS OPPORTUNITY

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 3.4 million independent Oriflame Consultants has seized this opportunity and successfully markets Oriflame's broad portfolio of beauty products, generating combined annual sales of around €1.5 billion. Oriflame's strategy for reaching its goal to become the number one direct selling cosmetics company is built on four cornerstones.

ORIFLAME'S CORNERSTONES

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

Oriflame's most valuable competitive strengths are found in these areas, and every action taken within the Company is to be aligned with the guiding principles for these cornerstones. By constantly improving the consumer offering and earnings opportunities, Oriflame will attract an increasing number of Consultants. Through consistent evaluation and prioritisation with the Oriflame Consultants in focus, management will ensure optimal resource allocation.

VALID IN BOTH EMERGING AND MATURE MARKETS

Oriflame's business model has proven resilient and valid in both emerging and 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, non-discrimination in terms of gender, 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 – all in line with the global trend of aspiring for more freedom.

AN ATTRACTIVE BUSINESS OPPORTUNITY FOR ORIFLAME CONSULTANTS

Oriflame's business opportunity for its Consultants can be summarised in seven key points. By continuously improving 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 earnings and career opportunities.
7. Enjoyment of a direct selling company with a human touch and a sense of belonging to a friendly, dynamic and fun global community.

Today, Oriflame has a broad geographical footprint with operations in countries in Europe, Asia, Africa and Latin America. Many of these are emerging markets or developing countries with the potential to reach higher living standards and greater freedom of enterprise. Taking part in the development of these countries, providing people with a chance to earn much-needed money and flourish as individuals, is in line with Oriflame's concept of encouraging enterprise and personal fulfillment. Presence in emerging markets with rapid growth from low levels also offers large potential for Oriflame in terms of attracting Consultants and new groups of consumers as the economy improves and demand for cosmetics increases.

MAKING MONEY FROM DAY ONE

The Oriflame business opportunity means that Consultants can make money the day they join. It is easy to become an Oriflame Consultant which requires minimum start-up costs and no long-term commitments. An Oriflame Consultant orders products at a reduced price and can sell them to end customers, thus making an immediate profit on her or his sales. Oriflame Consultants, who invite others to join and build a sales team, earn additional income based on the team's sales.

CONFERENCES FOR EXCITING EXPERIENCES 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 founders, top management and each other.

In 2012, a global Gold Conference was held in Stockholm for all regions with as many as 5,000 successful Oriflame Consultants gathered together. The theme of this major event was the success of Oriflame Consultants over the last 45 years with festive celebrations, crowned with presence of HM Queen Silvia. The 2012 Executive Conference was held in Buenos Aires for the top 300 Oriflame Consultants and the Diamond Conference for the top 1,200 Oriflame Consultants took place in Rio de Janeiro.

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 2012, a major event was held in the CIS region with around 25,000 Oriflame Consultants attending. Similar, smaller events took place in other countries as well.

Direct Selling

– a modern way of shopping

In times of rapid change in the retail sector, direct selling has turned out to be a sales channel well suited to modern needs. It offers a personal shopping experience on the customer's own terms and fits naturally into the fast-growing online shopping trend. Utilising new digital channels and adapting to changing consumption patterns, direct selling is a resilient sales method with excellent prospects.

MEETING NEW MARKET CONDITIONS IN A PROGRESSIVE MANNER

Direct selling as a traditional sales method may seem best suited to emerging markets without a developed retail sector. Lately, however, new consumer behaviour has been putting traditional retail to the test with, for instance, growing demand for home delivery, 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 the new market conditions in a progressive manner by adjusting the shopping experience to the consumer in terms of timing, location, entertainment and personal approach. Moreover, with its global supply chain structure in place, Oriflame's direct selling model has an excellent fit with online shopping.

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

CATALOGUES – THE MOST IMPORTANT SALES TOOL

The Oriflame catalogue is how the brands and products come to life for consumers and Oriflame Consultants. The catalogues are stores without walls, providing Oriflame Consultants with their most important, tangible sales tool – in printed or digital version. By providing consumers with the ultimate shopping experience at their chosen time and place, the Oriflame catalogue supports the business opportunity for Consultants. The stronger the consumer offer, the greater the potential to sell and grow the business. Alongside the catalogue, online social networks are turning into significant forums for sales and recruitment activities, supported by PR, events, leaflets, posters at 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 Asia and a few EMEA markets, 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, together presenting around 700 products.

In 2012, great effort went into developing a new structure and layout for the Oriflame catalogue. The aim is to create an even more attractive and inspiring shopping experience for customers and a stronger sales tool for Oriflame Consultants. The first catalogue with the new design was published in October 2012, and involved a major change in several respects. The products are displayed in sections by product category. This makes the shopping process more convenient and enables customers to find what they are looking for more easily. More focus is given to images and texts presenting the products, and the layout reflects the brand promise more clearly. Reactions to the new catalogue design have been positive both from consumers and Oriflame Consultants. The planned catalogues for 2013 will even further enhance the shopping experience and better express the Oriflame brand promise. Each region plans and produces its own catalogue editions every

Each region plans and produces its own catalogue editions every three or four weeks, but with the new catalogue layout, the catalogues of the various regions are more aligned. Globally, the catalogue is printed in over 40 different languages and it is also available for viewing online and as a tablet version in most markets.

MANY STEPS IN THE CATALOGUE PROCESS

To enhance efficiency in the process of creating such a large quantity of versions and editions of catalogues, planning of every detail is essential. 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 themes, which products will be shown in each catalogue, which page they will appear on and what the offers will be. The process involves a great deal of analysis of current and historical results and market trends, and 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 branding and customer demand for an exciting shopping experience.

ONLINE FUNCTIONS FOR ORIFLAME CONSULTANTS AND CUSTOMERS

Oriflame's digital media strategy aims to support the overall vision of becoming the number one direct selling beauty company, with long-term efforts adapted to the rapid developments of the digital business universe. As demand for online availability increases, the sales force is provided with new and efficient tools to enable them to conduct 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 branding channel.

Utilisation of online tools continued to increase during the year. Close to 90 percent of the sales force use the online services regularly and more than 80 percent of all orders are now placed online. New and simplified ordering and registration processes were gradually implemented during 2012 and are now available in most major markets.

INCREASED REACH IN SOCIAL MEDIA

Oriflame's reach on major social media platforms such as Facebook, YouTube and vKontakte increased significantly during the year, and since 2012 also through presence on major social media site Pinterest. Other social media channels, such as the blogs of major fashion and beauty influencers in key markets, play a key role in branding and fuelling sales. Oriflame now hosts some of the major fan pages for beauty companies in many of its markets and more than 50 official fan pages in total. In 2012, Oriflame also

established a presence on China's predominant e-commerce site, Taobao. The Company constantly invents new, efficient ways of promoting its beauty offer and campaigns on social platforms in order to attract new visitors, Oriflame Consultants and customers. In 2012, an innovative virtual make-up studio was launched, allowing site visitors to try Oriflame's cosmetics products virtually on an added personal photo, share the result with their friends and also buy the products directly from the application.

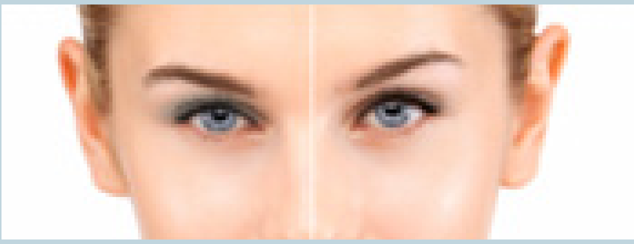
ONLINE TOOLS TO ENHANCE BUSINESS GROWTH

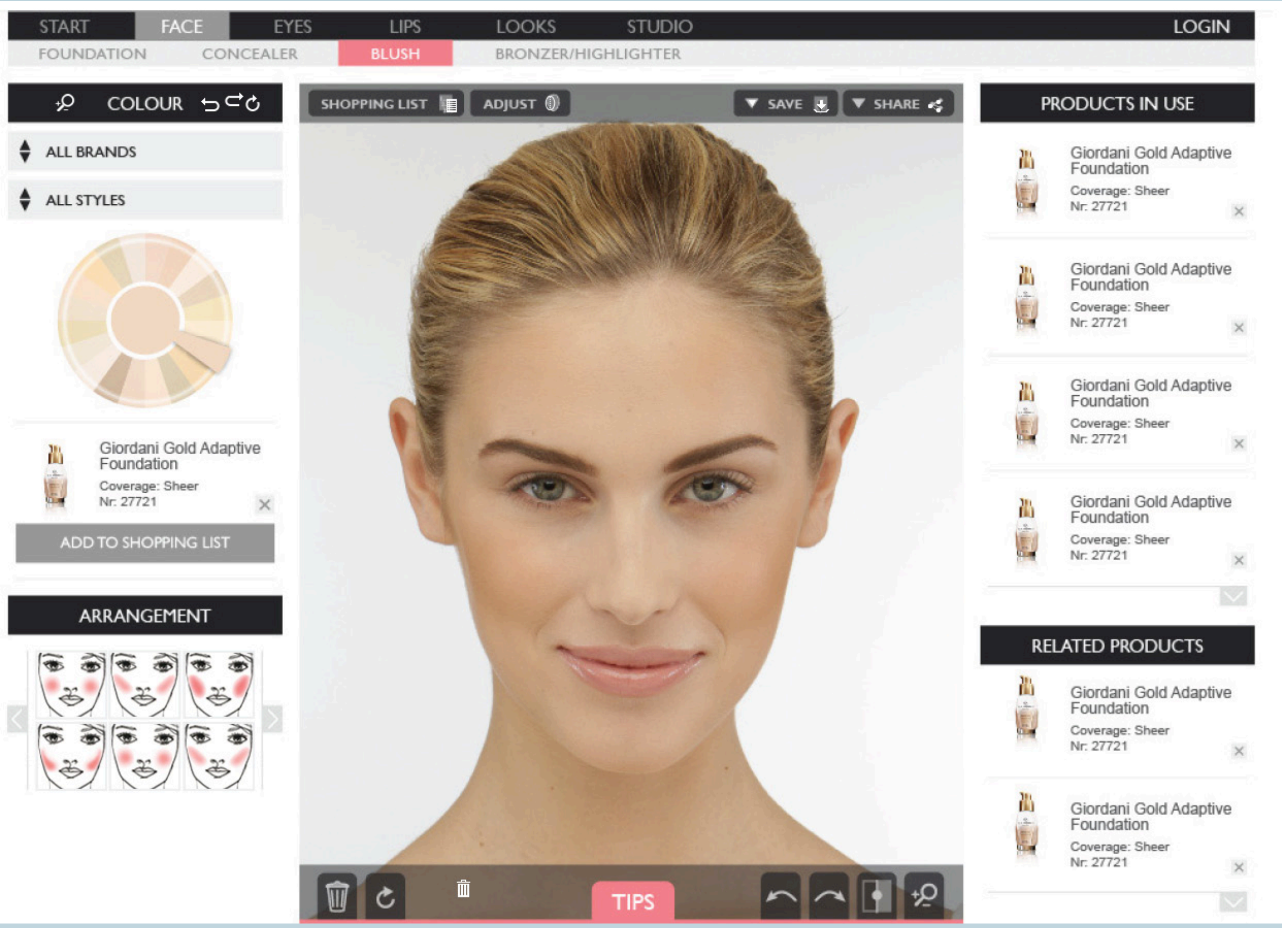
Oriflame Consultants are offered a number of methods to help them succeed. These include Oriflame's training program Oriflame Academy, and different tools gathered under a common system: SARPIO – Sales and Recruitment Processes in Oriflame. It was developed to offer Oriflame Consultants support in managing their businesses, while ensuring that they consistently convey the Oriflame brand. SARPIO is a proven system and path for sustained growth and advancement in the reward system – known as the 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 efficiency and drive growth. It also enhances communication with the sales force. Due to the increased presence of Oriflame Consultants in the digital world and the global online trend, Oriflame launched eSARPIO which provides best practice sharing and new tools and methods to be successful in growing business in the online environment. The eSARPIO system has been received positively among leaders and Oriflame Consultants.

A digital catalogue application for tablets was implemented globally in 2011. In 2012, Oriflame took the next step by launching a newly developed e-catalogue application in a pilot market, with product presentations and functions using all the possibilities afforded by the online environment, which follow the new structure and layout of the printed catalogues. The e-catalogue allows the Oriflame Consultants to promote the latest catalogue to their social networks, blogs, websites and also to take orders directly through the application.

INCREASED ACTIVITY ON ORIFLAME'S WEBSITES

A new global Oriflame website design was launched in late 2011, built to cater for the increased need of social media integration, and constant efforts are under way to adapt the site functions to new needs and available technology. The number of unique visitors viewing Oriflame's websites increased substantially in 2012 to around 36 million. Approximately 3 million of these visits were generated from Facebook and vKontakte – numbers which verify the accuracy of Oriflame's digital strategy and successful brand-building initiatives in new channels.





Oriflame Virtual Make-Up Studio

The Oriflame Virtual Make-Up Studio is a brand new way for visitors on Oriflame's websites globally, and in some markets even on our official Facebook, to try on products virtually, share their looks with friends and buy the products used directly from the application.

By simply uploading a picture of yourself, or choosing one of the built-in models, you can try the entire range of Oriflame make-up products – from foundations to lip-gloss and mascara – to find inspiration, and a look for every occasion. Once finished, the products used in the virtual make-up booth can be automatically added to the shopping cart.

The Oriflame Virtual Make-Up Studio has attracted many visitors to try their styling skills. During the first few months of use, more than 50,000 looks were uploaded by over 300,000 unique visitors in Oriflame's major markets.

Oriflame's products

– offering the latest beauty for everyone

Oriflame offers a wide range of products for everyone and every occasion, including strong favourites and a flow of new items. The extensive product portfolio, characterised by innovation, creativity and the highest ingredients standards, has been built up over the years and is constantly adapted to new needs and trends.

Oriflame provides an extensive range of distinct brands in different price segments to meet varied demand and preferences within and between markets. The portfolio covers a wide spectrum of beauty products – skin care solutions for every need, exclusive and high-quality fragrances, a broad and sophisticated range of colour cosmetics, numerous hair and body care items, innovative wellness products and a variety of 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 cosmetics products, and more than a third of these are renewed during a year.

Personal and Hair Care had a challenging year, mostly affected by competition from low-priced and heavily discounted products in the retail channel. However, the trend of the Skin Care and Fragrances categories was improved from prior year, and Colour Cosmetics' performance remained fairly stable. The impressive growth of Oriflame's newest product category, Wellness products, launched four years ago, continued during the year through an increased penetration among customers, new market entries and new concepts launched.

ECOBEAUTY – NATURAL, ETHICAL AND ENVIRONMENTALLY RESPONSIBLE

In March 2012, the new Ecobeauty line was launched following a prelaunch in the end of 2011. The Ecobeauty range offers Oriflame's most natural, ethical and environmentally responsible products, accredited by Fairtrade, Forest Stewardship Council™ (FSC™), Ecocert and The Vegan Society. The launch of Ecobeauty was another step in the Company's efforts towards more sustainable operations, and a way of meeting increased demand for selling and buying beauty products that meet high ethical and environmental standards. In 2012, the Ecobeauty platform covering Skin Care and Colour Cosmetics was extended to include products in the Fragrances and Personal & Hair Care categories, with the aim of further building on Oriflame's sustainability efforts.

A BROADENED RANGE OF INNOVATIVE PRODUCTS

Many of Oriflame's products are characterised by a high level of innovation based on extensive research. Examples include the relaunched Time Reversing Day & Night Cream, which is Oriflame's first ever skin care range with a key ingredient that acts on the skin at a genetic level. This is an example of a higher price segment product which is performing very well. Other breakthrough innovation products launched during the year are the Giordani Gold Jewel Lipstick and the Oriflame Beauty Power Shine Satin Lipstick within Colour Cosmetics. Oriflame Beauty Everlasting Foundation is another example, applying patented skin care technology in other product categories.

Cross category ranges in limited editions are a popular complement to the regular product range and have successfully contributed to sales. During the year, the Amazonia and Cocktails cross category ranges both performed well, as well as Sparkling in Paris for Christmas. As Oriflame was celebrating its 45th Anniversary in 2012, a special limited edition collection was launched in the second quarter, including a small range of all-time favourite products exclusively for the occasion.

In 2012, Oriflame prelaunched its new hair colour products, thus offering such items for the first time. The launch took place at the major Gold Conference for Oriflame Consultants in Stockholm in August and the products were made available to a selected number of top Leaders in the CIS region in late 2012.

The strong performance of the Wellness category continued during the year. A key event in 2012 in this category was the launch of Wellness Kids, including health products for children such as Wellness Kids Omega 3, Multivitamins and Minerals, which should be used as a complement to a balanced diet. The products are manufactured in Sweden at a certified plant using the highest quality ingredients.

CELEBRITY-ENDORSED LAUNCHES

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

In Colour Cosmetics, the strong performance of the Studio Artist collection, endorsed by Swedish Hollywood actress Malin Åkerman, continued from 2011, when it was launched. In the same category, the new innovative Hyperstretch Mascara was introduced into the CIS markets, endorsed by Russian journalist and TV celebrity Tina Kandelaki. In the Personal & Hair Care category, a new deodorant range, Activelle, was launched and endorsed by Oriflame's charity ambassador and top tennis player Caroline Wozniacki.

The largest and most spectacular collaboration in Oriflame's history is by all accounts that with Hollywood star Demi Moore, announced in August. Demi Moore is a highly sought after actress and style icon around the world and embodies a strong successful woman who inspires others – the perfect fit for Oriflame. The collaboration has resulted in More by Demi, one of the brand's most premium collections consisting of a selection of exquisite make-up, delicate fragrances and elegant accessories and jewellery. The products were launched from October 2012.

AWARDS FOR QUALITY AND INNOVATION

In 2012, several Oriflame products won awards for their quality and innovation in different parts of the world. A few examples are the Marie Claire Beauty Awards in Thailand, where Optimal Boost Capsules won "Most impressive performance", and the Cosmopolitan Beauty Award in Latvia, where Optimals Skin Energy Eye Cream was given the Best Eye Cream award. Also, popular UK magazine "My Weekly" recognised Oriflame's EverLasting foundation as the best foundation. In Russia, Oriflame was appointed Brand of the Year and hence honoured with the Effie award for the Royal Velvet brand endorsed by the actress and fashion model Monica Bellucci. Also, More by Demi won the Fifi Russian award for best celebrity fragrance.

DECADES OF SKIN CARE AND COSMETICS RESEARCH

Oriflame's product offer is a result of decades of skin care and cosmetics research and takes its 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 does not conduct or request animal testing on any of its products or ingredients at any stage of the product development process. This choice was made when Oriflame was founded in 1967.

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, sustainability and industrialisation to the manufacturing facilities. These projects deliver technology and innovative new products for the Skin Care, Colour Cosmetics, Fragrance and Personal & Hair Care categories. In Sweden, focus is on skin biology research.

MANY STEPS FROM IDEA TO LAUNCH

The process from idea to launch can take several years, involving substantial resources through various functions such as marketing, R&D, manufacturing and distribution. Staying 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 keeping existing ones loyal to the brand. Oriflame's customers come from various parts of the world and have different habits, incomes and needs. Creating attractive offers for such a diversified customer base requires a wide product range, incredibly fast pace and instant response to new trends. Staying ahead of competition and bringing innovation launch after launch are constant challenges. A strong team of brand managers representing the different product categories constantly 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.

Colour Cosmetics

The contribution of the Colour Cosmetics category remained stable compared to 2011, accounting for 24 percent of total sales. The main focus area of the mass-market brand Oriflame Beauty was the introduction of new innovative concepts to the market. The Hyper Stretch Mascara and Power Shine Satin Lipstick were launched during the year. The launch of EverLasting Foundation was highly successful and the product was named "Best foundation" by UK magazine My Weekly. The Very Me brand, targeting a younger clientele, continued to perform well in 2012 with successful launches of two limited edition Nail Polish collections. Another important highlight of the year was the launch of Jewel lipstick – Oriflame's first ever metal case lipstick, designed exclusively for Oriflame by French jewellery designer Hélène Courtaigne Delalande.

Skin Care

The Skin Care category accounted for 22 percent of total sales in a challenging market environment. In 2012, a new strategic initiative was launched, Ecobeauty, the first global cross-category range accredited by four independent organisations – Fairtrade, Ecocert, Vegan and FSC™. The range includes facial care and cleansing products, make-up foundations, shower gel and hand cream. The facial products and foundations in particular performed well, garnering lots of positive attention. A best seller during the year was the re-launched Time Reversing range with a new serum formula. Heritage brand Royal Velvet also drove the upper mass segment with positive growth throughout the year, and the sales of mass-market brand Optimals continued to increase, with Even Out Day Cream being Oriflame's best selling Skin Care product. Tender Care continued to be a top seller and an important heritage pillar in Oriflame's catalogue.

Personal and Hair Care

The Personal and Hair Care category generated 20 percent of Oriflame's total sales in 2012. The category was negatively affected by competition from very low priced brands in many of Oriflame's core markets. The declining sales force in CIS also affected sales, as Oriflame has a relatively large market share of Personal and Hair Care products in this region. However, some of the Company's brands performed strongly – for example Feet Up and everyday premium brand Milk & Honey grew steadily. A true success was the launch of deodorant brand Activelle, endorsed by Oriflame's charity ambassador and top tennis player Caroline Wozniacki.

Fragrances

The Fragrances category generated 20 percent of total sales. The difficult macroeconomic climate had an impact on both the male and female segments, yet with both segments demonstrating growth for the full year. Pillar brands such as Excite, Divine and Amber Elixir achieved strong growth compared with 2011, while the growth of recent introductions such as Love Potion, Lovely Garden and Flamboyant Privé contributed their share to the category's slight overall growth. The overall best selling fragrance was Excite by Dima, whereas the most successful premium launch was More by Demi, developed in co-operation with award-winning Hollywood star Demi Moore.

Accessories

The Accessories category generated 9 percent of total sales in 2012. The category was affected by a slowdown in sales in different segments, although focus was maintained on bringing fashion and trends to the Oriflame Consultants and consumers, as well as beauty-related accessories, jewellery, men's and kids' items. The focus on working with external illustrators, designers and brands continued. Also, developments in the fashionable cross-category collections continued during the year.

Wellness

Wellness is the category which increased by far the most compared to 2011, with strong growth in all regions, and generated 5 percent of total sales in 2012. The Wellness by Oriflame brand grew to become the third biggest brand in Oriflame. During the year, Wellness was launched in Indonesia and Turkey with the product range Nutri Shake. A new segment was introduced in CIS and EMEA with the launch of the WellnessKids range, developed for children 3–11 years old. In early 2013, the Wellness category was extended with a range of healthy soups, the Natural Balance Soup.

Market

– well-positioned for future growth

Oriflame has a wide geographical 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. 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.

A CHALLENGING YEAR

2012 was a challenging year with difficult market conditions and competitive pressure in some of Oriflame's core markets.

In the CIS and Baltic region the generally weaker demand for cosmetics products in markets such as Ukraine and Belarus led to a high churn of Oriflame Consultants who purchase products mainly for their own use. This impacted the sales force negatively while productivity was improved.

The EMEA region was impacted by the very difficult conditions primarily in the Southern European markets. While recruitment was to some extent helped by the high unemployment rate, productivity was severely impacted by the weak purchasing power and demand. The Northern African markets continued the strong development and Oriflame expanded further on the African continent by acquiring the former franchisee businesses in Kenya, Tanzania and Uganda.

The development in the Latin America region was solid, helped by a favourable exchange rate development, with especially strong growth in the strategically important Mexican market.

The Asia region continued to deliver strong sales development led by very positive development in China, India and Indonesia.

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 17 percent of the total cosmetics and toiletry market, compared with the global average of approximately 11 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 Amway and Mary Kay. Moreover Oriflame competes with global manufacturers such as Procter & Gamble, L'Oréal, Unilever and Beiersdorf.

In Latin America, direct selling is very popular, representing about 27 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 Procter & Gamble, Unilever and L'Oréal, in addition to Japanese manufacturers. 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 Oriflame and Amway 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 3.0 percent at constant prices, reaching $502 billion in 2016, according to Euromonitor.

Global operations

– optimisation of every stage of the supply chain

The basis for an efficient supply chain at a global company like Oriflame is an optimal information flow. Oriflame's efforts in implementing and utilising its new planning system for more detailed information about the product – from order to delivery – has resulted in notably higher service levels and reduced inventories.

Some 600 million products are sourced annually from about 60 suppliers and shipped to Oriflame's more than 60 markets worldwide. The Global Operations Strategy focuses on making the processes as efficient and reliable as possible for the Oriflame 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 inventories closer to the main markets and eliminating intermediate warehouses. Building capacity to support growth, increasing in-house manufacturing and sourcing regionally where appropriate, are other important features of the supply operations. The target is to have a base of flexible, efficient and quality-orientated suppliers who ensure product availability, quality, delivery times, reliability and accuracy in all of Oriflame's markets. During the year, a training programme was introduced to share knowledge about Oriflame's supply chain with other functions in the organisation.

HIGHER SERVICE LEVELS WITH A NEW SUPPLY CHAIN INFORMATION SYSTEM

The basis for an effective supply chain at a global company like Oriflame is an optimal information flow with accurate forecasting and an effective planning system for control at every stage of the supply chain. In 2011, a new planning system was implemented and rolled out in all the regions. The use of this system substantially increases immediate transparency in terms of delivery times and quantities and strengthens the collaboration between all entities involved in the planning process.

Integration between the new supply chain system and Oriflame's forecasting tool enables a better platform for the crucial connection between 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 consultant, are increasingly being used to promote forecasting best practices in the organisation, thus better supporting the business.
Forecasting accuracy continued to improve during the year and the use of the enhanced planning and supply chain systems led to shorter lead times and clearly contributed to notably higher service levels compared to the previous years. Despite of the high service levels, inventories decreased by approximately 15 percent in unit terms from the same period the previous year, leading to a rise in cash flow. Oriflame will continue to prioritise its efforts to improve service and inventory levels and overall flexibility in the supply chain.

FACTORIES AND SUPPLIERS – STRENGTHENING REGIONAL SOURCING

Oriflame's quality assurance team works both with in-house manufacturing operations and subcontracted suppliers to achieve consistent compliance with 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 of where the product is manufactured.

IN-HOUSE PRODUCTION

Oriflame manufactures about 60 percent of its cosmetics product volumes in-house and aims 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.

Construction work on Oriflame's new production and distribution facility in Russia, located in the Moscow region, proceeded as planned. Installations in the warehouse and the pick and pack

facilities for the Group Distribution Centre have been finalised. The construction of the factory building was completed in November enabling interior work and installations to be conducted during the winter. Oriflame aims to start production in the Personal and Hair Care category in 2014.

EXTERNAL SUPPLIERS

External suppliers in Western and Central Europe, Russia, Ukraine and Asia produce the remaining part of the product range, including cosmetics, accessories and food supplements. In different regional sourcing initiatives, Oriflame strives to source as closely to its markets as possible to shorten the supply chain and increase service levels. During the year, the Company added new suppliers at strategic locations, particularly in the CIS region and India. For example, Oriflame's efforts in developing a CIS sourcing alternative for fragrances were successful with the start of deliveries from a fragrance supplier in Ukraine. In 2011, Oriflame started to plan for increased production capacity in India and in 2012, the supplier base in the country was expanded to cover all relevant production technologies.

LOGISTICS – STRIVING FOR HIGHER EFFICIENCY AND SUSTAINABILITY

Oriflame has implemented a supply and sourcing strategy for logistics operations in addition to the existing ISO Cosmetic Good Manufacturing Practice Standard (GMP), integrated into 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 described above. The aim is to improve transportation routines and reduce lead times, transportation costs, 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. The Company continuously explores possible logistics alternatives. During the year, attempts to make all freight more efficient, with more goods in each transport unit, were successful.

DISTRIBUTION – GROUP DISTRIBUTION CENTRES SERVING MORE MARKETS

Oriflame's strategy is to consolidate the warehouses into Group Distribution Centres in order to optimise transportation costs, reduce inventories and increase service levels. Oriflame Consultants are served directly from the Group Distribution Centres whenever possible. Previously, each market had central stockholding at local market warehouses. Today, Oriflame operates Group Distribution Centres in Warsaw, serving nine markets, and in Kiev, serving Ukraine. The Group Distribution Centre in Budapest, opened in 2011, added three markets to its network this year, thus serving eight markets in total. In Moscow, a new distribution facility, serving the large Russian market, opened in March 2013.

Read more about Oriflame's sustainability work regarding the supply chain in the sections Sustainability and Planet on pages 32–41.

Sustainability

– Planet, People and Community

Responsible business practices are key to Oriflame's success and future growth. Whether in its day-to-day business activities or in the impact of its products, Oriflame is committed to achieving ever higher standards of social and environmental performance to accelerate its long-term vision of becoming a sustainable company.

In 2012, Oriflame continued its efforts to integrate sustainability into all areas of its business. The Company has committed to reducing its impact on the planet, improving the lives of people involved as well as contributing positively to the communities in which it operates. Whilst progress has been made, Oriflame recognises that this is a long journey and there is much more still to be done.

ORGANISING FOR SUSTAINABILITY

A plan that targets the Company's key impact areas has been developed. As part of the plan, ethical and environmental risks are continuously being identified, assessed and addressed. Oriflame has also published a range of commitments and targets designed to improve performance. The plan is regularly updated, with new commitments added and existing standards raised. Oriflame's goal is one of continuous improvement and during 2013 the plan will be reviewed and particular emphasis will be placed on clarifying the direction on social issues. Clear commitments and targets will be presented.

Oriflame's sustainability plan is overseen by the Chief Executive Officer and the Board of Directors. The responsibility of fulfilling Oriflame's ambitious commitments also sits firmly within every part of the organisation. To ensure that the sustainability agenda permeates all parts of the business, a section dedicated to sustainability issues is now included for all levels of the Company's internal education programme, the Oriflame Academy. This is complemented by on-going communication through the Oriflame intranet and other channels. Oriflame is also working on new ways to engage employees as well as our 3.4 million Oriflame Consultants globally on these crucial issues.

EXPECTATIONS OF STAKEHOLDERS

Oriflame's success is created by the people in and around the Company; Oriflame's Consultants, customers, employees, suppliers, shareholders, and the public at large. These stakeholders expect global companies to pursue the highest standards of social and environmental responsibility. Oriflame is determined to become a leader of that agenda. To this effect, the Company is initiating dialogue with various stakeholder groups to better understand these expectations. They range from consultant meetings and consumer questionnaires to investor dialogues. In addition, 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 2012, Oriflame continued to meet with NGOs in individual meetings as well as in industry meetings focusing on specific environmental and social challenges.

HUMAN RIGHTS

Oriflame has a responsibility towards the people whose lives are touched by its operations. The Company therefore takes a strong stance on social and ethical issues, and 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 and other corporate policies to ensure that they permeate all aspects of the business. As part of advancing the Company's efforts, Oriflame joined the Swedish Network for Business and Human Rights in 2012, a business network focusing on exchanging best practices.

Planet

– reducing environmental impact

As a multinational company Oriflame has a significant impact on the surrounding world. At a time when the planet is facing serious threats from climate change, loss of biodiversity and resource scarcity, Oriflame has an important role to play in pursuing more sustainable business models in all parts of its operations.

Oriflame's environmental sustainability strategy is based on results from a lifecycle assessment of the Company's operations; from raw material extraction to production and disposal, focusing mainly on the carbon footprint. The study identified Oriflame's most significant environmental impacts and the actions taken today are aimed at reducing these impacts.

FOUR KEY AREAS

The strategy contains a series of commitments across four key impact areas: sustainable sourcing, climate change, water and waste. The aim is to reduce environmental impact through a number of 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 2012, Oriflame continued to roll out a series of improvements designed to embed sustainability principles into every part of the business.

PRODUCT DEVELOPMENT

To successfully improve the environmental profile of Oriflame's products, 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 and are ethically sourced. Many Oriflame products are inspired by nature, and the aim is to incorporate plant ingredients and actives in the product formulations. Materials from protected or endangered flora and fauna species are not used. All raw materials go through a sustainability review process, and scientific reports on environmental issues are continuously monitored. This enables the Company to take action and, where possible, phase out the use of certain ingredients that may have negative impact on the environment and replace them with alternatives with lower impact. For example, all Oriflame's primary surfactants, primary conditioning agents and preservatives have a good biodegradability profile.

Oriflame's key packaging materials consist of paper, plastics and glass. The Company is continuously working on initiatives to reduce the components' environmental impacts, for example by selecting materials from renewable sources, by reducing the total materials used, making sure that as many packaging components as possible are recyclable and finally by gradually increasing the share of recycled materials. One main initiative involves gradually introducing PCR (Post Consumer Recycled) plastics into bottles, tubes and jars. In addition, recycled glass has been introduced, but the supply situation of this material is proving challenging due to a very low total market demand.

Oriflame is continuously launching new products under its Ecobeauty brand. The lessons learnt from developing Ecobeauty are now being used in the development of other Oriflame products. Oriflame views Ecobeauty as an innovation "laboratory" and a symbol of the Company's wider commitments to implementing more sustainable business practices. It is also being used as a tool to educate Oriflame Consultants about sustainability issues. Please see more details on page 37.

"Managing our forests in a responsible way is critical to the survival of all living species; it is vital to our environmental, social and economic future. That's why we are very happy to see Oriflame set the ambitious target of sourcing 100 percent of its paper from credibly certified or recycled sources. We began our collaboration in 2010 and since then Oriflame has shown strong commitment to understanding and improving their paper supply chain. It's admirable to see that they have come a long way in a short space of time."

Tensie Whelan
President, Rainforest Alliance

ANIMAL WELFARE

Oriflame is committed to supplying safe, efficacious, innovative products that comply with the most stringent international regulatory requirements. At the heart of this is Oriflame's commitment to animal welfare. Oriflame was among the first in the industry to reject animal testing. This choice was made when Oriflame was founded in 1967 and the Company continues to stand firmly behind this principle.

Oriflame does not conduct or request animal testing on any of its products or ingredients at any stage of the product development process. To test the product safety and efficacy, and to ensure their compliance with the highest safety standards, Oriflame's product safety testing is carried out by specialist laboratories under the supervision of qualified medical personnel. Following a detailed review of the product formulation by the Company's team of experts, clinical safety tests are conducted with consenting healthy volunteers (18 years of age minimum). Oriflame also employs in-vitro test methods (non-animal) for those tests that could cause injury or suffering to the volunteers (e.g. eye irritancy).

Oriflame must abide by the laws and regulations of the countries in which it operates and some countries may require test data gained through animal testing. Where this applies, Oriflame supplies complete product registration information including a full safety assessment in line with the requirements of the European Cosmetics Regulation. This should negate the need for any animal testing and the Company tries to persuade the relevant authorities to accept this data. Where this cannot be done, Oriflame must reluctantly submit the products for additional testing, which may include animal testing. The Company is, through its representation on the European Cosmetic Trade Association, Cosmetics Europe, actively supporting work to change local laws to bring them into closer alignment with European regulations.

SUSTAINABLE SOURCING

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.

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 and folding box suppliers globally and data on use and statistics on sources were gathered. In the 2012 catalogues, 84 percent of the paper used came from credibly certified sources with an intact chain of custody, a significant increase from 55 percent in 2011. An additional 13 percent were sourced from non-controversial sources (2 percent in 2011). The first mapping of our global folding box suppliers showed that 53 percent of the material sourced in 2012 came from FSC certified sources and thereby complies with our guideline. Implementation of the guidelines for main corrugated board suppliers has been started and will be further rolled out in 2013. 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.

Sourcing of sustainable palm oil continues to be a key focus area for Oriflame. In 2012 Oriflame was the first company in the world to produce a foaming product (Swedish Spa Refreshing Shower Gel 21876) that contains RSPO (Roundtable on Sustainable Palm Oil) segregated certified sustainable palm oil. We aspire to increase our commitment and use over the next few years to demonstrate our support towards RSPO certified sustainable palm oil in order to contribute to the preservation of our natural resources.

Check our progress at: ***www.rspo.org/en/member/760***

For more information: ***www.rspo.org.***

RSPO
Roundtable on Sustainable Palm Oil

EFFICIENCY IN OPERATIONS

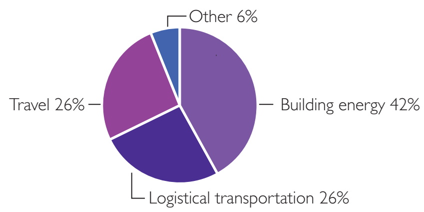
Increasing the sustainability profile of Oriflame's own facilities and operations is a key priority. During 2011, a new greenhouse gas reduction target was set. This target aims to reduce Oriflame's greenhouse gas emissions by 50 percent by 2020 relative to turnover, and applies to all our own production sites, offices and logistics operations, as well as business travel. During 2012, an implementation strategy was developed focusing on how to further reduce emissions within the Company's three main emission areas; building energy (representing 42 percent of measured greenhouse gas emissions), global distribution of products (26 percent) and travel (26 percent). The implementation plans will continue to be rolled out during 2013. Oriflame reports its emissions to the Carbon Disclosure Project.

Carbon intensity	2010	2011	Change
GHG emissions (tonnes per M € sales)	51.3	50.4	–2%

Progress for 2012 will be presented in Q2 2013

2011 Emissions by Source and Scope

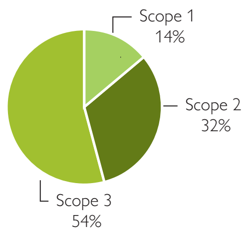
Source



Scope 1:
All direct emissions, i.e. fuel use

Scope 2:
All indirect emissions from consumption of purchased electricity, heat or steam

Scope 3:
Other indirect emissions, such as resulting from outsourced transport and business travel



PRODUCTION SITES AND OFFICES

In 2012, roll-out of a new audit program started at internal production sites, warehouses and offices, focusing on energy efficiency and reducing greenhouse gas emissions. At all Oriflame's production sites, there are detailed programs with the aims to reduce not only energy and greenhouse gas emissions but also waste and water consumption. Each of these areas is the subject of targets to be met by 2015. A proportion of the Company's electricity demand has been moved to certified renewable sources. At the Swedish and Polish production sites, 100 percent of the electrical energy will be sourced from renewable sources by 2013. In addition, significant technical improvements have been implemented, such as retrofitting building management systems and introducing reduced or low energy manufacturing processes.

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. This is seen as a way to engage employees and Oriflame Consultants in the Company's sustainability work. It includes the provision of manuals for all office managers and guidelines for employees regarding energy use, recycling and other sustainability tips. The office initiative has successfully been rolled out in all regions, and has seen a high degree of employee engagement. Implemented actions range from smaller items such as starting recycling initiatives and installing motion sensors, to larger investments in energy efficiency or renewable materials when refurbishing or moving offices.

During 2012, an internal guide aimed at reducing the impacts of Oriflame conferences was developed and implemented for a first time during the Stockholm Gold conference.

Environmental data

ORIFLAME PRODUCTION SITES	2010	2011	2012
Energy (MWh)	35,900	34,600	32,700
GHG emissions (tonnes CO_2e)	10,100	9,700	9,300
Water (m^3)	170,600	155,100	142,400
Waste (tonnes)	4,900	3,700	3,400

LOGISTICS

Oriflame's overall supply 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. Regional sourcing activities in the CIS region have during 2012 helped reduce the distances shipped by almost one third for these markets.

Oriflame works to limit air shipments to the greatest extent possible and products shipped by air decreased by 30 percent during 2012. The vast majority of the Company's shipments are conducted by sea and truck freight. The packaging and loading routines for ship containers and trucks are continuously being reviewed to optimise space usage, thereby reducing energy consumption. During 2012, utilisation was further improved by 11 percent in ship containers and 16 percent in trucks compared to 2011. Compared with our 2010 baseline, the figures represent a total improvement of 36 percent for ship containers, and 28 percent for trucks.

Oriflame aims to select road carriers utilising Euro 4, 5 and 6 standard trucks wherever possible, thus reducing particle emissions. During 2012, approximately 46 percent of Oriflame's total road transportation was conducted by Euro 4, 5 or 6 certified trucks (up from 35 percent during 2011). A new requirement for road carriers is to use only vehicles less than 8 years old in order to further limit impact.

Ecobeauty for a beautiful planet

Oriflame 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 ever to offer a cross category range certified by four independent organisations. During 2012 new products were launched within Personal & Hair Care, Colour Cosmetics and Fragrances.

Ecobeauty includes a broad range of cosmetics with a minimum of 95 percent of ingredients from traceable, renewable and more 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 packaging; the plastic is recyclable and contains recycled content, while the perfume bottle is made of recycled glass and the wooden cap is sourced from credibly certified forests.

SUPPORTING LOCAL INITIATIVES BY FAIRTRADE

Oriflame collaborated very closely with the Fairtrade organisation to achieve new standards for cosmetic companies. Ecobeauty is the first ever 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.

ACCREDITED BY FOUR ORGANISATIONS

The international organisations that have accredited the Ecobeauty range are Fairtrade, Ecocert, The Vegan Society and the Forest Stewardship Council™ (FSC™).

Fairtrade – Fairtrade means fairer trading conditions and opportunities for producers in developing countries to invest in their businesses and communities for a sustainable future. More information: www.info.fairtrade.net.

Ecocert – Guarantees optimal use of natural ingredients and a minimum of synthetics, and promotes the use of ingredients from Organic Farming. Natural Cosmetic certified by Ecocert Greenlife according to Ecocert Standard available at http://cosmetics.ecocert.com.

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

Forest Stewardship Council™ – The packaging is made from FSC™ certified paper, which guarantees that the fibers used in production comes from well managed forests and other controlled

Sustainable Sourcing

ENVIRONMENTAL COMMITMENTS	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 plan.** Green palm credits purchased to cover our full 2012 volume. This initiative will continue in 2013. In 2012 Oriflame became the first company in the world to produce a foaming product (Swedish Spa Refreshing Shower Gel 21876) that contains RSPO segregated certified sustainable palm oil. We aspire to increase our commitment and use over the next few years to demonstrate our support towards RSPO certified sustainable palm oil in order to contribute to the preservation of our natural resources.
Paper: Source 75 percent 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 percent.	**On plan. Catalogue paper: Achieved.** With the support of the Rainforest Alliance we conducted a supply chain analysis of our catalogue suppliers. For the 2012 catalogue, 84 percent of paper used is fully compliant with our paper commitment, i.e. sourced from a credibly certified source with an intact chain of custody (up from 55 percent last year). An additional 13 percent also meet Oriflame's minimum requirements. Our catalogue paper has therefore already achieved the 2015 goal. We keep working to ensure that all our paper is proven acceptable by our policy of intact chain of custodies.
Catalogue paper: Source 100 percent of catalogue paper from credible certified origin by 2016.	**New.**
Packaging: By year-end 2011, all newly specified cosmetic display packaging cartons and leaflets will be FSC-certified.	**Achieved 2011.**
Source 75 percent of all our display packaging cartons and leaflets from FSC™ certified sources by 2013.	**On plan.** With the support of Rainforest Alliance we conducted a first supply chain analysis of our packaging cartons and leaflets purchased during 2012. 53 percent of material used was FSC™ certified. In total 68 percent was compliant with Oriflame's general paper guideline and an additional 7 percent also met Oriflame's minimum requirements. We are well on track to meeting the 2013 target. We gradually started labelling our Ecobeauty products with the FSC™ logo during 2012.
Animal Welfare: Never use ingredients in our cosmetics formulations derived from dead animals or which cause harm or suffering to animals.	**Previously achieved / Ongoing.**

Climate Change

ENVIRONMENTAL COMMITMENTS	PROGRESS
Greenhouse Gas Emissions: Reduce greenhouse gas emissions from global Oriflame operations by 50 percent by 2020 (relative to turnover, 2010 baseline).	**On plan.** During 2011 total greenhouse gas emissions from Oriflame's operation decreased by 3 percent in absolute terms, and 2 percent relative to turnover. Progress for 2012 will be published online in Q2 2013.
Reduce emissions from our factories by 20 percent by 2015 (per unit produced based on the 2010 baseline).	**On plan.** A number of GHG reduction initiatives were implemented in 2012. Despite this, emissions per unit have increased since 2010 due to a drop in units produced. In absolute terms however, a decrease of 4 percent since 2011, and 7 percent since 2010, was achieved. We are still working to meet the 2015 target.
Energy Use: Reduce energy use at our factories by 15 percent by 2015 (per unit produced based on the 2010 baseline).	**On plan.** Energy use per unit has increased since 2010 due to a drop in units produced. In absolute terms a decrease of 5 percent since 2011, and 9 percent since 2010, was achieved.
Travel: Roll out an online communication tool to all office employees to help reduce travel, by year-end 2011.	**Previously achieved / Ongoing.** Online communication tools are available to all relevant employees and training on how to use this takes place on an on-going basis. Systems are gradually being upgraded.
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 plan.** We are in the process of LEED™ certifying the Noginsk Facility that is under construction outside Moscow.

Water

ENVIRONMENTAL COMMITMENTS	PROGRESS
Water use: Reduce water use at our factories by 10 percent by 2015 (per unit produced based on the 2010 baseline).	**On plan.** Water consumption per unit has increased since 2010 due to a drop in units produced. In absolute terms a decrease of 8 percent since 2011 and by 16 percent since 2010 was achieved.
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.	**Not achieved.** All rinse-off products (where these materials enter the water system) are compliant. A limited number of performance leave-on products have been formulated using conditioning agents that are biodegradable rather than readily biodegradable. The strategy will be reviewed during 2013.
Education: To reduce environmental impact during the use phase and at the product end-of-life, we will start to communicate with our 3.4 million Oriflame Consultants on issues relating to water consumption and pollution.	**Behind plan.** Initiatives to educate Oriflame Consultants have been launched through information in service centres, conferences and online media but roll-out has been slower than planned. Ecobeauty is being used as a tool to educate Consultants about these issues.
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 plan.** We are in the process of LEED™ certifying the Noginsk Facility that is under construction outside Moscow.

Waste

ENVIRONMENTAL COMMITMENTS	PROGRESS
Manufacturing Waste: Reduce waste at our factories by 10 percent by 2015 (per unit produced based on the 2010 baseline).	**On plan.** Waste produced per unit has decreased by 10 percent since 2010, in absolute terms this represents a decrease of around 30 percent.
Recycled Plastic: Increase the use of post-consumer recycled plastic (PCR) in our cosmetic packaging materials. From 2011, all new coloured PET bottles will specify PCR material.	**On plan.** PCR content is continuously being introduced in all new PET bottles and also gradually rolled-out in other tubes and jars.
Education: To encourage end-of-life recycling of our packaging materials and catalogues, we will start to communicate with our 3.4 million Oriflame Consultants on environmental issues relating to waste.	**Behind plan.** Initiatives to educate Oriflame Consultants have been launched through information in service centres, conferences and online media but roll-out has been slower than planned. Ecobeauty is being used as a tool to educate Oriflame Consultants about these issues.
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.	**Behind plan.** The green office guide has successfully been rolled out to all regions. The majority of Oriflame's offices have implemented recycling facilities and roll-out into service centres has started, but the initiative is taking longer than planned.
LEED™ certification: Reduce construction waste at our new facilities by pursuing LEED™ Green Building scheme certification for all our new production facilities.	**On plan.** We are in the process of LEED™ certifying the Noginsk Facility that is under construction outside Moscow.

People and Culture

– Togetherness, Spirit and Passion

Oriflame's success is created by the people in and around the Company – employees around the world, Consultants with their businesses, suppliers who produce raw materials, components or products and of course the customers who buy the Company's products. Each individual is important in making Oriflame the leading beauty company selling direct. It is therefore natural that Oriflame acts responsibly and with respect towards all the people affected by its operations.

In its four regions, Oriflame offers a truly global working environment with around 7,500 employees located in offices all over the world, and approximately 3.4 million independent Oriflame Consultants selling to and serving customers in over 60 countries. Moreover, Oriflame's operations provide employment to a great number of people at external production sites in the Company's supply chain.

CORPORATE CULTURE

Oriflame's people are the reason for its success. Diversity among employees and Consultants, and indeed among customers, is a key factor in the Company's great creativity and constant development. Oriflame operates in a multitude of languages on four continents where values, religious beliefs and political convictions vary tremendously from region to region. At such a global company, a strong and distinct corporate culture is key to the strong sense of belonging which characterises Oriflame – and also to the Company's success through the years.

Oriflame's culture is based on entrepreneurship and respect for and belief in people's capabilities. Oriflame strives to become the number one workplace with an inspiring corporate culture, by paying attention to the dreams and goals of both employees and Oriflame Consultants. The aim is for everyone joining Oriflame to experience a stimulating and dynamic work situation that makes them grow as people and professionals.

Oriflame's core values derive from the team-playing, passionate people in the organisation, characterised by the pursuit of new solutions and excellent results. Three guiding core values shall permeate all relationships and actions at Oriflame – Togetherness, Spirit and Passion.

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 works hard to ensure that everybody involved in the Company's mission understands the core values and principles of the Oriflame culture. For employees, besides the Code of Conduct which is rolled out to all employees, the Oriflame Way is a one-day seminar presented by senior managers for this purpose. The seminar is given in English, Russian and Spanish to fully reach the target audience, and CEO and President Magnus Brännström has personally conducted several of these training sessions. As of 2012, the Oriflame Way seminar is available as an e-learning version for all employees for increased access. For Oriflame Consultants, the Company's core values are presented and discussed in the business opportunity presentation, at conferences and other gatherings and are embedded in all Oriflame Academy training and modules.

EMPLOYEES – CAREER OPPORTUNITIES WITH CHALLENGING ASSIGNMENTS

Oriflame offers challenging work assignments in various areas. The Company's international environment offers opportunities to work with people of many different nationalities, participate in global projects or transfer to a position in another part of the Oriflame world. The Company's operations provide opportunities in areas such as sales & operations, marketing, branding & communication, supply, finance, legal, IT & online, human resources and business development. In addition to these functions, Oriflame provides unique careers in research & development and catalogue creation. The research & development functions in Dublin and Stockholm employ over a hundred scientists and technical experts.

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 TALENT IS CRUCIAL TO SUCCESS

Attracting and keeping talent in the Company is crucial to Oriflame's future success. Efforts are being put into establishing structured human resource frameworks, explicit ownership and a sharp agenda for the Company's talent management procedures. A project was recently started to clarify possible career paths at the Company, with the aim of promoting internal development. Also, a new system of performance management has been designed, linking targets for individuals more clearly to the Company's strategy. The aim is to set key business targets and personal objectives, thus creating a dialogue between employee and manager.

Oriflame's international work environment is highly valued by students and young professionals. International summer internships and participation in student fairs are some of the activities deployed to strengthen Oriflame's brand among these groups of potential employees.

Oriflame's employees grow both in their day-to-day work and through the Oriflame Academy for employees – a unique training programme covering a variety of relevant areas. There is great focus on leadership training for middle management and also channels for sharing expertise and best practices within the organisation.

In 2012, employee surveys were carried out for the first time, covering a large part of the Oriflame population. The results form a valuable basis for the future development of the Company's human resource strategies and tools. The employee surveys will be repeated regularly.

CREATIVITY FROM DIVERSITY AND EQUALITY

Oriflame aspires to reflect the globally diverse audience that it serves. In addition to hiring the best talent, Oriflame believes that diversity of gender, nationality and culture leads to the creation of better perspectives, ideas and products. With offices worldwide, each is a venue for diversity and shared experience.

Oriflame's policy is to offer competitive and objective remuneration. Salary mapping is one way of ensuring the Company is compliant with equal opportunity law and policy in terms of gender-based differentiation. Such a salary analysis was conducted in 2012 in one of the Group Support Offices. The results show that the Company is reaching its objectives in this area.

Oriflame always strives for representative distribution with regard to gender and ethnicity for all categories of employees. Oriflame's overall workforce is predominantly female and it therefore also aims to have a higher share of women in management positions. In 2012, women represented 44 percent of the global management team, constituting the Company's top 400 managers.

WORKING ENVIRONMENT

Oriflame is committed to providing a safe and healthy working environment for all employees. The Company strives to reduce risks of ill health and accidents and to improve the working environment at all offices and factories. Internal human resource policies aim to ensure compliance with all international laws and labour standards.

ORIFLAME CONSULTANTS – OPPORTUNITIES FOR PERSONAL GROWTH AND DEVELOPMENT

One of Oriflame's founding principles was to give people an opportunity to "make money today and fulfil their dreams tomorrow", thus to earn extra income or run their own business and, in so doing, improve their lives. Oriflame offers an attractive business opportunity for its Consultants around the world, with low entrance fees and no stock required, making it easy and risk-free to join. An extensive portfolio of innovative beauty products, exciting catalogues and reliable systems for ordering, delivery and payment are tools which enable Oriflame Consultants to build a successful business. Through paying out bonuses and other forms of recognition, Oriflame distributed close to €400 million directly to Consultants in 2012, the majority of which are women in developing markets. Besides making money from the first day of operations, being an Oriflame Consultant means personal growth and development through free training and belonging to a company with a human touch and a friendly, dynamic and fun global community.

When joining, Oriflame Consultants get the chance to run their own business – setting their own targets, planning income and working hours – thereby improving and in some cases even completely changing their lives. The majority of people who join Oriflame shop 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 networks. However, Oriflame's direct contact with each and every one of its Consultants is important for ensuring the spirit and passion of the sales force.

Oriflame Consultants operate according to the Rules of Conduct for Independent Sales Consultants. The rules outline a set of principles for appropriate business behaviour, honesty and truthfulness, fair, thoughtful and responsive treatment of customers and high integrity and responsibility standards.

Regardless the size of the business, 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 Consultants in their networks. This provides an incentive to maximise network sales and recruit new Oriflame Consultants to extend the scope of their networks. Apart from the financial compensation, successful Oriflame Consultants also qualify for Director titles, depending on their achievements, as well as attendance at Oriflame conferences around the globe, where key initiatives are launched and new products are presented. Equally important, the conferences provide a venue for leaders to exchange ideas with founders, top management and each other.

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. The core training of the Oriflame Academy is conducted by the leaders in the networks, while more advanced modules are predominantly managed by Oriflame's employed sales management representatives. Oriflame has developed and implemented online versions of these training courses and these e-learning courses are now important complements to physical meetings.

ORIFLAME CONSULTANTS ON SEIZING THE ORIFLAME BUSINESS OPPORTUNITY

Kamini PN Jha, India

"These last 15 years have been a life-changing era. We have fulfilled almost all our dreams. And, most of all, we have fulfilled not only our own dreams but those of our children. Thanks to Oriflame, we can proudly say that we have fulfilled our biggest dream by sending our daughter to university."

Elcin Yıldız, Turkey

"My life after Oriflame is a totally different story. I started travelling more, I met numerous new people, I became more self-confident. My leadership and coaching skills improved. I am now better at human relationships and time management. I earn more money, I have more free time for a social life, I am happier and I am more confident about my future. In short, I have a better life."

Lesya Chernenko, Ukraine

"Oriflame has given me both time and freedom, which enables me to completely devote myself to my son. And my steadily rising income enables me to cover the medical bills for my son's expensive treatments."

CONSUMERS

Oriflame's products are designed to make consumers feel good about themselves, whether through the use of Oriflame cosmetics or wellness products. Moreover, consumers can at all times rest assured that all products are safe to use.

For Oriflame, the safety and wellbeing of its consumers are crucial. All cosmetic products are formulated to be safe in accordance with the provisions of the European Cosmetics Regulation (EC No 1223/2009) and other major international regulations. In markets where regulations are less developed, Oriflame applies the European regulation requirements for safety as a minimum.

A step-wise approach to safety evaluation of cosmetic products is employed at Oriflame and performed throughout the product development process. First, Oriflame's teams rigorously evaluate all new raw materials to ensure they meet our purity and quality requirements and are safe for use. A safe concentration for each ingredient in each product type is then evaluated before the safety of each final product is confirmed by testing at independent specialised laboratories using human volunteers and non-animal testing methods. The safety evaluation process continues even after the product has been launched by actively collecting feedback from consumers and using it to further bolster product safety.

The above safety evaluation process applies to 100 percent of Oriflame's cosmetic products and certificates of safety are present for all of the Company's products on the market – over 1,000 products in total.

The same stringent safety measures also apply to the wellness products. All ingredients in the Wellness by Oriflame range are of the highest food grade purity, fully approved internationally for use in food, and selected for optimum safety and efficacy. Wellness products are formulated to comply with EU Regulation (EC No 178/2002) which lays down the General Principles and Requirements of Food Law and other related European legislation. In addition to this, they are also formulated in accordance with global health authorities' recommendations, including the World Health Organisation, the Institute of Medicine and the Nordic Nutrition Recommendations. To further ensure the safety of the range, products are evaluated by reputed Swedish experts in the field of medical science and nutrition.

In 2012 there were no incidences of non-compliance with regulations and voluntary codes concerning the health and safety effects of Oriflame's cosmetic or wellness products during their life cycle in any market.

SUPPLIERS

In 2011, Oriflame's supplier requirements were reviewed and a new comprehensive Supplier Code of Conduct was developed. This code was rolled out to all key suppliers in 2012. The work to improve the complete supplier management process, which was initiated in 2011, will continue in 2013 when the new strategy will be finalised.

Through audits and close co-operation with suppliers, Oriflame works to ensure compliance with labour standards and principles. Besides Oriflame's own guidelines, international standards are used as a basis for audits performed. For non-cosmetic suppliers, Oriflame works in co-operation with 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 with Oriflame's Supplier Code of Conduct, and that necessary actions are taken for any non-compliance. Oriflame has staff located in both China and India dedicated to conducting audits of working conditions and environmental matters. In 2012, Oriflame audited approximately 30 percent of global non-cosmetics suppliers, thus exceeding the 25 percent target.

Community

– positive impact on communities

Besides 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 at a local, regional and global level. Oriflame's community engagement is a natural part of its overall vision of becoming a sustainable company.

THE ORIFLAME FOUNDATION

In order to reach its full potential, all of Oriflame's community work is gathered under one umbrella – the Oriflame Foundation. The Foundation is an independent Luxembourg Foundation founded by Oriflame Cosmetics S.A. with the aim of increasing the overall level and quality of community investment provided across Oriflame markets. This will be achieved through financial support, dedicated resources and global coordination. Guiding and structuring all community investment activities in this way enables improved impact, best practice sharing and increased overall community investment across different markets.

The Oriflame Foundation partially underwrites local Oriflame markets' charity activities. The Foundation will consider grants from its own funds when appropriate and possible.

The Foundation's remit allows it to:

- fund up to 50 percent of a project amount when a local market plans to cover the remaining 50 percent,
- provide financial guarantees to charitable projects initiated regionally or locally,
- match donations when Oriflame Consultants are involved in fundraising.

In 2012, methods to report the reach and impact of Oriflame's community engagement were established and will be introduced going forward as a means of monitoring efforts. Better structured reporting and assessments of initiatives will be regularly conducted in each market.

FOCUS ON EDUCATION

Oriflame seeks to contribute to efforts and projects that create long-term positive effects for people and their communities. Providing education is one of the most effective ways of achieving this.

The primary mission of Oriflame's community involvement is therefore to help children and young women by means of a wide range of educational initiatives, providing them with opportunities to change their lives for the better and enabling them to fulfil their dreams. This firm commitment to supporting self-help is the guiding principle of Oriflame's community involvement, and is also in line with its business model.

Efforts are focused on various activities which also go beyond traditional classroom-based education, and range from building social skills and mentoring to supporting orphans and foster families. Examples of existing projects include Livslust, an organisation that provides vocational schools for disadvantaged young people in Latvia, helping their rehabilitation into society, and Love is Blind by the Bethel Foundation, an organisation supporting blind and visually impaired orphans in China.

PARTNERSHIPS WITH SELECTED ORGANISATIONS

From the beginning, Oriflame has strived to support NGOs and charity organisations 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 which continues to this day with contributions from the Company and the Oriflame Foundation.

To identify the right projects to support, the Oriflame Foundation has recognised SOS Children's Villages as its preferred global NGO partner. SOS Children's Villages is an international social development organisation focusing 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 Oriflame's Latin American markets and has led to successful fundraising and a high level of involvement from both Oriflame Consultants and employees. The partnership

includes both a long-term contribution to the SOS Children's Villages' work and special initiatives for the children. In Poland, the Oriflame Foundation and Oriflame Poland arranged a tennis cup for children as a special project together with SOS Children's Villages. Tennis lessons were given by talented tennis players and professional tennis coaches, and the cup winner was awarded a racquet from tennis star and Oriflame Foundation ambassador Caroline Wozniacki.

Where it is not possible to form a local partnership with SOS, the markets work with carefully selected NGO partners who meet the criteria laid out in the Oriflame Foundation Charter.

ORIFLAME'S FIRST CHARITY AMBASSADOR

In 2012, top seeded Danish tennis star Caroline Wozniacki continued in her role as the Oriflame Foundation'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 supports the Oriflame Foundation's mission of community involvement globally, taking part in awareness and fundraising activities, including visits to Oriflame's local charity partners. She also promotes the iconic Oriflame Foundation bracelet.

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 volunteer for good causes in their markets. Volunteering initiatives can range from different types of community service activities to fundraising. All Oriflame's markets have the opportunity to take part in local volunteering initiatives, which are run in conjunction with the markets' local NGO partners or as bespoke projects developed by the markets themselves. 2012 marks the second year in which markets had the opportunity to have their employees take part in volunteering activities. While small at first, the number of Oriflame markets participating in volunteering is steadily growing.

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

Statement from the Chairman

A CHALLENGING AND IMPORTANT YEAR

Oriflame's sales trend in 2012 encountered sustained headwinds in CIS and Europe. These challenges motivate us to define even more clearly what we need to develop to create sustainable growth. At the same time, we managed to improve profitability and maintain a high dividend level despite a weak sales trend and substantial investments. For me, this is testimony to our fantastic organisation and a strategy that works, making me proud and fully confident.

A BUSINESS MODEL WITH OPPORTUNITIES

Company business models are put to the test at times of a weak economic climate. Consumer goods companies are now also affected by a major shift in consumer patterns, from traditional retail to fast-growing e-commerce. While this also poses a challenge to Oriflame, we believe the changes mainly will create exciting opportunities for us and our Consultants. Direct selling is well suited to incorporate online services. Oriflame's business model provides a supply chain constructed to handle over 60 markets globally, and we have already developed online services that enable us to capitalise on this strong infrastructure.

In addition, various online functions facilitate the work of our Consultants, and their use of these tools has risen sharply. There are also signs that direct selling generally has fared better than retailing in the stiffening competition from e-commerce. In light of this, on the whole I see solid fundamentals for Oriflame in a future in which e-commerce will continue to gain ground.

THE VISION OF A SUSTAINABLE COMPANY

Whatever the state of the market, Oriflame continues to focus on its strong corporate culture and endeavour to become a sustainable company. Investing in these areas is natural for Oriflame with its vision of making dreams come true. With responsible products and a credible brand, we attract proud employees and Oriflame Consultants, and savvy customers who increasingly choose companies that show regard for both people and the environment. Although we have a long way to go in reaching our vision of becoming a sustainable company, during the year we took several steps to integrate a sustainability angle into all of Oriflame's operational channels. And, we will continue to raise the bar because we believe this will benefit everybody in any way affected by the Company – from employees and Oriflame Consultants to customers and shareholders.

GROWTH FUNDAMENTALS

Looking ahead, we see before us a persistently challenging market. This is something we have to endure, and we have duly adapted to the circumstances very well indeed. I feel confident that, in the coming years, we will further strengthen Oriflame and restore growth.

Finally, as always, I would like to extend my sincere thanks to all employees and Oriflame Consultants around the world who have worked hard to provide their valuable input within their respective areas. Your attitude, creativity and expertise make me proud and optimistic as we face the future.

Key Figures

TWO-YEAR RECORD

€ million unless stated otherwise	2012	2011
Sales	1,489.3	1,493.8
Gross profit	1,053.0	1,014.8
Gross margin, %	70.7	67.9
EBITDA	204.2	182.2
Adjusted operating profit	175.1	[1] 164.1
Adjusted operating margin, %	11.8	[1] 11.0
Adjusted net profit	121.5	[1] 105.7
Return on capital employed, ROCE, %	30.8	29.5
Cash flow from operating activities	183.7	135.3
Cash flow from operating activities, per share, €	3.22	2.37
Equity/assets ratio, %	31.9	27.0
Net interest-bearing debt	[2] 214.0	[2] 232.9
Interest cover	9.7	6.1
Adjusted earnings per share, diluted, €	2.13	[1] 1.86
Average sales force ('000)	3,385	3,599
Average number of full-time equivalent employees	7,465	7,898

1) Before restructuring costs of €5.9m.
2) Net interest-bearing debt includes US Loan fair value. The net interest-bearing at hedged values would be €179.2m (31.12.2012) respectively €195.1m (31.12.2011).

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

	2011				2012			
Sales, € million	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
CIS & Baltics	230.6	200.3	166.6	228.7	224.9	199.8	155.0	220.3
EMEA	106.8	105.6	93.3	115.0	103.8	103.5	86.5	120.1
Latin America	19.7	21.1	24.5	21.9	22.3	24.2	28.3	25.8
Asia	35.5	36.2	34.3	40.0	41.2	43.6	37.6	42.4
Manufacturing	1.6	0.5	0.3	0.2	0.7	0.2	0.2	0.1
Other	2.6	3.0	2.6	3.0	2.8	2.3	1.8	1.9
Oriflame	396.8	366.7	321.6	408.7	395.7	373.6	309.4	410.6
Adjusted operating profit*, € million	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
CIS & Baltics	33.5	33.4	25.0	41.8	39.2	34.3	23.4	39.8
EMEA	14.3	16.3	11.2	19.4	13.2	15.2	9.5	24.5
Latin America	(0.0)	0.6	2.2	1.8	1.3	2.0	2.9	2.5
Asia	0.1	2.5	1.8	5.6	2.7	3.4	1.5	4.1
Manufacturing	1.2	2.6	1.3	(0.8)	0.6	1.4	2.7	1.6
Other	(2.4)	(17.0)	(14.8)	(15.6)	(9.3)	(13.0)	(12.0)	(16.3)
Oriflame	46.7	38.4	26.7	52.2	47.7	43.2	28.0	56.2
Average sales force, '000	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
CIS & Baltics	2,306	2,221	1,979	1,938	2,074	1,951	1,645	1,628
EMEA	874	892	831	843	899	926	855	882
Latin America	148	165	165	167	158	171	175	181
Asia	468	475	461	445	473	524	479	477
Oriflame	**3,796**	**3,753**	**3,435**	**3,393**	**3,604**	**3,572**	**3,154**	**3,168**

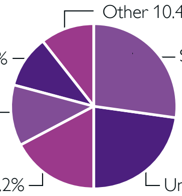
* Adjusted figures for 2011 exclude restructuring costs.

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

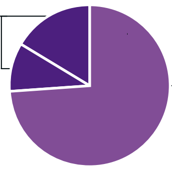
The Oriflame Share

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 2012, the number of shareholders and SDR holders was 9,112. Each SDR represents one share. The last price paid on 28 December 2012 was SEK 206.60, giving Oriflame a total market capitalisation of SEK 11.8 billion. During 2012, an average of 265,410 shares were traded per day on the NASDAQ OMX Nordic Exchange. Oriflame's share capital amounts to EUR 71,401,418 divided by 57,121,134 shares.

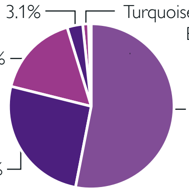
Geographic distribution of shareholders



Distribution of shareholder-type



Share of turnover 2012



ORIFLAME COSMETICS TOP 10 SHAREHOLDERS AS AT 31 DECEMBER 2012

		Shares	Share of capital, %
1	Lasard Asset Management LLC	6,850,746	12.0
2	Stichting af Jochnick Foundation	6,327,001	11.1
3	Robert and Alexander af Jochnick and family	5,177,735	9.1
4	Jonas af Jochnick and family	4,296,000	7.5
5	Baillie Gifford & Co	2,594,044	4.5
6	SEB Investment Management	2,102,823	3.7
7	JP Morgan Asset Management Ltd.	1,836,243	3.2
8	Swedbank Robur Fonder	1,539,761	2.7
9	EFG Private Bank SA	1,260,574	2.2
10	Templeton Investment Counsel LLC	1,207,740	2.1
	Others	23,928,467	41.9
	Total shares outstanding	**57,121,134**	**100.0**

Source: King Worldwide

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
2012 (7)	New issue	80,000	100	57,121,134	71,401

(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.
(7) New issue of shares relating to the 2012 share incentive program.

OWNERSHIP STRUCTURE AS AT 31 DECEMBER 2012

Shareholding	Number of shareholders	%	Number of shares	%
1 – 1,000	8,114	89.0	1,511,661	2.6
1,001 – 10,000	716	7.9	2,245,562	3.9
10,001 – 50,000	147	1.6	3,546,975	6.2
50,001 – 500,000	116	1.3	19,536,628	34.2
500,001 – 1,000,000	11	0.1	7,626,594	13.4
1,000,001 –	8	0.1	22,653,714	39.7
Total	**9,112**	**100.0**	**57,121,134**	**100.0**

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 2012, the Board of Directors proposes to the Annual General Meeting a distribution of €1.75 (€1.75) per share, corresponding to 83 percent of net profit. The last day of trading including right to dividend is 21 May 2013 and payment of cash dividend will occur through Euroclear on or about 28 May 2013.

SHARE TRADE

A total number of 66 million shares where traded on NASDAQ OMX Stockholm during 2012, accounting for 53 percent of total turnover in the share. Oriflame's share is also traded in marketplaces outside of NASDAQ OMX Stockholm such as Bats Chi-X, Turquoise and Burgundy.

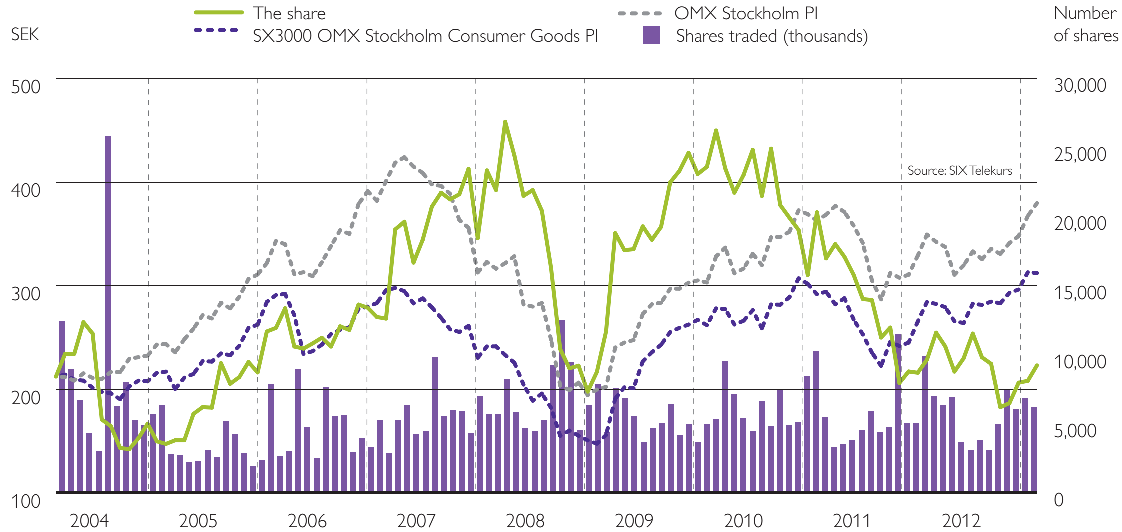
SHARE DATA

Listing	NASDAQ OMX Stockholm
No of shares outstanding	57,121,134
EPS per share	€2.13
Dividend per share	€1.75
Market capitalisation at 31 December 2012	SEK 11.8 billion
Ticker code	ORI SDB
ISIN-code	SE0001174889

ANALYSTS FOLLOWING ORIFLAME

Andreas Lundberg	ABG Securities
Seth Peterson	Berenberg Bank
Niklas Ekman	Carnegie
Daniel Ovin	Chevreux
Jimmie Bork	Credit Suisse
Ole-Andreas Krohn	DnB Nor Markets
Anders Hansson	Danske Bank
Rosie Edwards	Goldman Sachs
Erik Sandstedt	Handelsbanken
Céline Pannuti, Ankur Gupta	J.P. Morgan Casenove
Erik Sjögren	Morgan Stanley
Guillaume Delmas	Nomura
Stellan Hellström	Nordea
Sergej Kasatchenko	Pareto Öhman
Stefan Nelson	SEB Enskilda
Christian Anderson	Swedbank
Erik Hegedus	WOOD & Company

SHARE PRICE



Directors' Report

The Board of Directors (the "Board of Directors") present the Annual Report and the audited consolidated financial statements of Oriflame Cosmetics S.A. (the "Company") and its subsidiaries (together with the Company, the "Group") for the financial year ended 31 December 2012 (the "Annual Report").

The Chairman's letter, the CEO statement, the corporate governance report (the "Corporate Governance Report") as well as the report on internal control and monitoring (the "Internal Control and Monitoring Report") included on pages 48, 9, and 56–62, all form part, together with the present directors report, the annual management report (the "Report").

ACTIVITIES OF THE COMPANY AND OF THE GROUP

The Company is a public limited liability company (société anonyme) governed by the laws of the Grand-Duchy of Luxembourg and registered with the Luxembourg Trade and Companies Register under number B. 8835, which main purpose is to act as holding company of the Group whose principal activities are the sale of high quality skin care, fragrances, cosmetic products and related nature-inspired innovative beauty products through an independent sales force of approximately 3.4 million independent Oriflame Consultants.

BUSINESS REVIEW

The Chairman's letter and the CEO statement on pages 48 and 9 respectively include a fair review of the development of the activities of the Company and of its subsidiaries over the year in consideration and likely future development of the Group's activities.

KEY PERFORMANCE INDICATORS

The key figures of the performance of the Group can be found on page 49–50 of this Annual Report.

ACTIVITIES IN THE FIELD OF RESEARCH & DEVELOPMENT

For the period under review, the Group increased its R&D expenses by 6.9 percent to €12.3 million compared to €11.5 million in 2011.

CAPITAL STRUCTURE AND RIGHTS AND OBLIGATIONS ATTACHED TO SECURITIES OF THE COMPANY

As stated in note 19 of the financial statements, the issued and outstanding share capital of the Company as of 31 December 2012 amounted to EUR 71,401,417.50 and consisted of 57,121,134 fully paid in ordinary shares with no designation of nominal value out of which 55,639,523 were deposited with Skandinaviska Enskilda Banken AB ("SEB") and represented by Swedish depository receipts ("SDRs") listed on the NASDAQ OMX Nordic (Stockholm Stock Exchange)[1]. In addition to the SDRs, there is also since February 2013 a sponsored Level 1 American Depositary Receipt ("ADR") program with the SDRs as underlying instrument for the ADRs. Each ADR represents 0.5 SDRs.

Each SDR represents one share in the Company and each share entitles to one vote at shareholders general meetings (the "General Meetings").

More generally, all shares issued by the Company rank pari passu with each other and enjoy equal rights as provided in the Luxembourg law of 10 August 1915 on commercial companies, as amended (the "Luxembourg Company Law") and the Company's articles of association (the "Articles of Association")[2] and no share in the Company carries special voting and/or control rights.

The Company has not issued any other type of securities giving access to the Company's capital.

TREASURY SHARES

As of 31 December 2012, the Company held none of its own shares.

AUTHORISED CAPITAL

The Company has an authorised capital fixed at EUR 102,400,000 (the "Authorised Capital").

RESTRICTIONS ON THE TRANSFER OF SECURITIES OR EXERCISE OF VOTING RIGHTS

As per the Articles of Association and the general terms and conditions of the SDRs there are no restrictions in regards to transfer of shares or SDRs of the Company.

The Articles of Association also do not provide for any voting restrictions: however, in compliance with the Luxembourg law of 24 May 2011 on the exercise of certain rights of shareholders in general meetings of listed companies[3], the Articles of Association introduced a record date system according to which only those shareholders (either directly or indirectly by holding SDRs) who are shareholders of the Company at midnight (Luxembourg time) on the 14th day prior the general meeting (the "Record Date") – respectively who are able to prove that they are shareholders as at the Record Date – shall have the right to participate and to vote at the General Meetings.

MAJOR SHAREHOLDINGS

The major direct and indirect[4] holdings and voting rights in the Company as per 31 December 2012 can be found in the table on page 51 of the Annual Report.

CONTROL SYSTEM IN EMPLOYEE/MANAGEMENT SHARE SCHEME

The Company is not aware of any issues regarding item e) of article 11 of the Luxembourg Takeover Law as the shares issued by the Company under the employee stock schemes (the "Share Incentive Plans") are transferred directly to the Company's employees and/or to the Group's key management.

The beneficiary employees and/or Group's key management, who hold Company shares, may exercise their rights in the same way as any other shareholders of the Company in accordance with the Articles of Association and the Luxembourg Company Law.

Further details of the Share Incentive Plans can be found in note 23 – "Equity compensation plans" of the financial statements.

1) The Company was introduced on the NASDAQ OMX Nordic (Stockholm stock exchange) on 24 March 2004 through an initial public offering of SDRs listed on the OMX STO Equities CCP.

2) A copy of the consolidated version of the Articles of Association is made available on the Company's website at www.investors.oriflame.com.

3) The Articles of Association were amended on 21 May 2012 to reflect the requirements of the Luxembourg law of 24 May 2011 on the exercise of certain rights of shareholders in general meetings of listed companies.

4) As above stated, as of 31 December 2012, 55,639,523 shares in the Company were deposited – under the SDR listing mechanism – with SEB acting as a result as depositary.

AGREEMENTS BETWEEN SHAREHOLDERS RESULTING IN SECURITIES AND/OR VOTING RIGHTS TRANSFER RESTRICTION

As of 31 December 2012, the Company was not aware of any agreements between shareholders that may result in restrictions on the transfer of securities (i.e. shares or SDRs in the Company) and/or affect their voting rights.

RELATED PARTIES

Information about related parties can be found in note 24 of these financial statements.

RULES GOVERNING THE APPOINTMENT AND REMOVAL OF THE MEMBERS OF THE BOARD OF DIRECTORS AND THE AMENDMENTS OF THE ARTICLES OF ASSOCIATION

Appointment and removal of the members of the Board of Directors are subject to the provisions of article 12 of the Articles of Association according to which directors of the Company (the "Director(s)") are appointed and removed by ordinary resolution (simple majority) of the General Meeting. In the event of one or more vacancies by reason of death, retirement or otherwise, the Board of Directors may elect by co-optation a Director to fill such vacancy.

The Articles of Association may be amended from time to time by a decision taken by a two third (2/3) majority of the shareholders of the Company present or represented at the General Meeting convened for this purpose, representing at least fifty percent (50%) of the Company's share capital in accordance with the provisions of article 67–1 of the Luxembourg Company Law. However, the shareholders of the Company may change the nationality of the Company only by unanimous decision.

Further details of rules governing the appointment and replacement of Board of Directors members and the amendment of the Articles of Association can be found hereafter in the Corporate Governance Report attached to the Report.

POWERS OF THE BOARD OF DIRECTORS

The Board of Directors is vested with the broadest powers to manage the business of the Company and perform all acts of administration and disposition on behalf of the Company, in its interests. As a result, all powers not expressly reserved by the Luxembourg Company Law or by the Articles of Association to the General Meeting fall within the competence of the Board of Directors.

Authorisation to issue shares of the Company

The Board of Directors has, by resolutions passed respectively at the Company's Extraordinary General Meetings held on May 2008, 2010 and 2011, been authorised by the shareholders to issue on a non-preemptive basis up to 4,800,000 Company's shares under the Share Incentive Plans as follows:

i. up to 2,100,000 Company's shares may be issued under the Authorised Capital to persons exercising their rights under the 2008 share incentive plan for a period ending five years after 19 May 2008; and
ii. up to 2,700,000 Company's shares may be issued under the Authorised Capital to persons exercising their rights under the 2011 share incentive plan for a period ending five years after 19 May 2011.

During the financial year 2012, 80,000 shares were issued under the Share Incentive Plans, bringing the total number of shares issued under Share Incentive plans since the year 2008 to 428,573.

Further details about share issuances under the Share Incentive Plans may be found in note 23 – "Equity compensation plans" of the financial statements.

Authorisation to buy-back shares of the Company

On 19 December 2012, the Company's extraordinary general meeting has authorised the Board of Directors, with the right to delegate this power, to acquire – under a share buy-back program (the "Share Buy-Back Program") to be implemented in accordance with the objectives, conditions and restrictions provided by the Regulation (EC) No. 2273/2003 of 22 December 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards exemption for buy-back programs and stabilisation of financial instruments – up to 5,712,113 Company shares and/or SDRs (the "Treasury Shares"), representing 10 percent of the subscribed capital of the Company.

The purpose of the Share Buy-Back Program is to optimise the capital structure of the Company. The Treasury Shares so acquired will ultimately be cancelled and reduce the capital accordingly.

Further details on the Share Buy-Back Program may be found in the General Meeting minutes dated 19 December 2012 published on the Company's website at investors.oriflame.com.

Significant agreements taking effect, being altered or terminated upon a change of control of the Company following a takeover bid

The Board of Directors has identified the following significant agreement(s) to which the Company is party to and that could be altered or terminated as a result of a takeover bid process:

– the EUR 330,000,000 Revolving Credit Facility agreement;
– the 2010 and 2011 U.S. Private Placement agreements amounting to USD 360,000,000 and EUR 25,000,000.

Agreements between the Company and its directors or employees providing for compensation for loss of office or employment occuring because of a takeover bid

There is no specific agreement in place between the Company and its directors or employees whereby the latter would receive compensation in case they resign or are made redundant without valid reason, or if their employment contracts cease because of a takeover bid and the requirements the Company shall follow in that matter under such circumstances are those provided by local applicable laws.

As general consideration, under current contract terms, no compensation is provided for employees of the Group who resign except as follows: in connection with the 2007 Group 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 Group 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 his 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 which has employed him for damages. This is not stipulated in the employment contracts but is established by law.

MARKET ABUSE RELATED CONSIDERATIONS

The Company has adopted and applies an insider trading policy published on the Company's web site at investors.oriflame.com.

PRINCIPAL RISKS AND UNCERTAINTIES

Strategic and operational risks

In the long term, Oriflame's business depends significantly upon its ability to retain its existing sales consultants and recruit new sales consultants. If management is unsuccessful in this regard, the Company's sales are likely to decline.

In the short term, the loss of key high-level sales consultants could adversely impact the growth and the performance of the distribution network and, as a result, sales.

Oriflame's operations in the CIS region accounted for over 50 percent of Group sales and profits in 2012. The Company's business could be adversely affected by political, regulatory and economic instability in this region. Such instability also could impact sales consultants' activity, and subsequently the Company's sales.

Sales of Oriflame products depend to a significant extent upon brand recognition and the goodwill associated with the Company's trademarks and trade names, and its business could be harmed if its brand recognition is hurt or if management is unable to protect the trademarks and trade names.

Oriflame is dependent on its manufacturing facilities and other Supply Chain assets in Poland, Sweden, India, China and Russia as well as on third-party manufacturing facilities and logistic services. Any interruption in these facilities, or the loss of a third-party supplier, could negatively impact the business, financial condition and results of operations.

Oriflame is dependent on its information systems in Czech Republic and Russia. Any interruption in these facilities due to natural disasters or durable software malfunction could negatively impact the company's operations.

Environmental compliance costs and liabilities could impact adversely the Company's financial condition.

Financial risks

Given the international nature of Oriflame's business, governmental authorities may question its inter-company transfer pricing policies, assert conflicting claims over the taxation of company profits or change their laws in a manner that could increase its effective tax rate or otherwise harm the business.

Oriflame is exposed to the risk of currency fluctuations in many countries and these fluctuations may have a material effect on the results of operations and financial condition. The Company experiences both currency translation and currency transaction exposure. Currency fluctuations may affect the comparability of Oriflame's results between financial periods.

For a further detailed analysis of financial risks, please see note 28 of the 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.

Other risks

Oriflame is exposed to economic, political, legal and business risks associated with its international sales and operations, particularly in emerging markets, where legal and political landscapes may evolve rapidly.

The imposition of legal, tax or financial burden on sales consultants could affect negatively our operations and ability to recruit new sales force in concerned markets.

In many of the markets where the Company operates, there is no legislation regulating the Direct Selling industry or this legislation is currently being developed, which may create legal risks that affect our business, financial condition and results of operations.

The cosmetics industry is highly competitive in many of the markets where Oriflame operates, thus creating a risk of material adverse effect if the Company is unable to compete effectively.

BRANCH

The Company has a Branch in Switzerland which was incorporated in 2002.

SUBSEQUENT EVENTS SINCE THE END OF THE FINANCIAL YEAR

Implementation of the Share Buy-Back Program

Under the authorisation granted by the shareholders of the Company at the Extraordinary General Meeting held on 19 December 2012, the Board of Directors instructed in January 2013 the Company's management to effectively launch the Share Buy-Back Program with a repurchase notional of SEK 350m, corresponding to approximately 3 percent of the current outstanding Company's share capital.

As of the 31 March 2013, the Company has repurchased, within the Share Buy-Back Program, 1,522,074 Treasury Shares at an average price of EUR 216.73. In accordance with relevant provisions of the Luxembourg Company Law, voting rights attached to these Treasury Shares are suspended.

It is expected that the Share the Buy-Back Program be finalised on 23 April 2013 at the latest.

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 2 May 2012 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 2013 such shareholders' day will be held on 25 April 2013 (exact time and location will be announced no later than 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 2012, 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 2012 Annual General Meeting the same nomination process as previous year 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 at the Annual General Meeting and, unless re-elected, remain in office for a term of one year. 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 2012 Annual General Meeting resolved, as suggested by the Nomination Committee,

* The Swedish Code of Corporate Governance effective as of 1 February 2010, including any amendments and instructions issued by the Swedish Corporate Governance Board up until 31 December 2012.

that the remuneration would remain unchanged compared to the previous year, i.e. that €62,500 is awarded to the Chairman of the Board, €27,500 to each non-Executive Director, €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 2012, Oriflame held thirteen Board meetings, out of which one was a two-day strategy meeting. Secretary at the meetings is Pontus Andreasson, in-house legal counsel for the Group.

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 generally invited to all Board meetings, and always 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 and Internal Control issues are carefully considered by the Audit Committee and then reported to the Board of Directors. The auditors are invited to all regular Audit Committee meetings. At least once per year the Board meets with the auditors without the CEO or other members of senior management being present. In 2012 such meeting took place on 16 February and in advance of the 2012 year-end report on 13 February 2013.

For more information about Board members, please read the section "Board members" below.

BOARD COMPOSITION AND ATTENDANCE AT BOARD AND COMMITTEE MEETINGS DURING 2012:

Board member	Attendance		
	Board Meeting	Remuneration Committee	Audit Committee
Robert af Jochnick (Chairman)	12		
Magnus Brännström	13		
Anders Dahlvig	13		
Marie Ehrling	13		4
Lilian Fossum Biner	13	2	
Alexander af Jochnick	11	2	4
Jonas af Jochnick	12		
Helle Kruse Nielsen	13		4
Christian Salamon	13		4
Total number of meetings in 2012	**13**	**2**	**4**

NOMINATION COMMITTEE AND NOMINATION PROCESS

At the Annual General Meeting held on 21 May 2012, 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 2012, where he represents the af Jochnick Family. Per Hesselmark (Stichting af Jochnick Foundation), William von Mueffling (Cantillon Capital Management LLC), Pia Axelsson (Fjärde AP-fonden) and Marianne Flink (Swedbank Robur) 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 2012 has in advance of the 2013 AGM met three times. All meetings were attended by all committee members.

The work of the Nomination Committee constituted in 2012 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 2013. 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 2013 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 4 years including 2012, 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 2013 Annual General Meeting to increase the Director's remuneration to EUR 65,500 (62,000) for the Chairman and EUR 29,000 (27,500) to each non-executive Director.

The Nomination Committee furthermore resolved to propose to the 2013 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 2012 consisted of Lilian Fossum Biner and Alexander af Jochnick. The purpose and aim of the Remuneration Committee is to safeguard that the Company has access to the competence required at a cost appropriate to the company, and that the existing and future remuneration schemes have the intended effects for the company's operations. The tasks of the Committee are to review remuneration and other material terms of employment for the Company's executive directors, senior executives and other key personnel, monitor and evaluate programs for variable remuneration for the executive management, and in particular monitor and evaluate any share-based incentive program implemented in the Company.

Based on its reviews the Remuneration Committee prepares proposals for resolutions, to be discussed and approved by the Board. The Remuneration Committee meets when necessary. During 2012 the Remuneration Committee has met twice.

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 2012 the Audit Committee met four times. The members of the Audit Committee comprises Marie Ehrling, Alexander af Jochnick, Helle Kruse Nielsen and Christian Salamon. Christian Salamon has acted chairman of the committee. The CFO and the Group Risk Management Director report to the Audit Committee and are together with the Company's auditors invited to all regular meetings.

AUDITOR

The Annual General Meeting held on 21 May 2012 resolved to re-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 2013. 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 has provided advice to the Company on fiscal and other 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 13 February 2013 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.

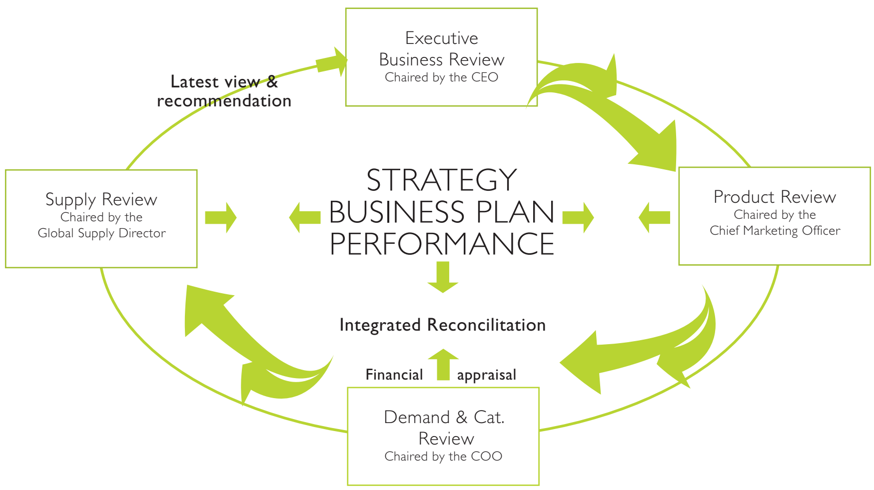
Executive Business Review

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 approximately 3.4 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 52 markets. In 12 markets, Oriflame acts through franchise arrangements with local distributors rather than through subsidiaries. Some sales companies operate with their own warehouse facilities, others are supplied by regional distribution hubs.

Global Support and Service

The sales companies are supported by global service functions. The global support and service functions consist of Finance, Supply, IT and Online, Marketing and Sales Support functions. Oriflame's global support and service functions are located primarily in Fribourg, Switzerland; Warsaw, Poland; Stockholm, Sweden; Prague, Czech Republic; Delhi, India and Bray, Ireland where support functions in the fields of R&D, Marketing, Sales Support, Global Supply, IT, Online, HR, 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 with management among those on Executive Vice President level and up, 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 in three years time receive a number of free shares. For further information, see note 23 in the financial statements.

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 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, expatriate 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 has been reviewed by the Company's auditors.

The Company selected the COSO framework as a basis for internal control. The COSO framework was issued by the Committee of Sponsoring Organisations of the Treadway Commission. The framework consists of five components:

- Control environment,
- Risk assessment,
- Control activities,
- Information and communication,
- Monitoring.

Since 2010, Internal Control is a separate permanent function within the Company. During 2012 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 system includes policies for measurement, acquisition and protection of assets, controlling the accuracy and reliability of reports, benchmarking between units and ensuring compliance with defined guidelines. The policies and guidelines are intended to create a foundation for appropriate 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 fulfils 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. 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. In addition, the two regions (EMEA and Asia) also employ dedicated internal control officers, in order to organise and perform more efficiently their internal control cycles.

In 2011, the Company implemented an internal control software solution, which supports the process throughout the organisation and allows real time reporting. The software has been rolled out to be used by all relevant regional and local personnel impersonating the functions of self-assessment and verification of control processes. Those individuals are 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, the regional and functional VPFs, as well as the Internal Control Officers (hereinafter ICO)). Furthermore, in order to further strengthen the attention to risk and compliance matters within the organisation, Oriflame has appointed a VP Group Risk and Compliance.

The FM/FDs, as well as the SSFDs, are responsible for having the requested control activities in place in their sector of responsibility. They execute self-assessments and attach relevant evidences to prove the existence of listed control activities. Then ICO, RFD, VPF, or FDCF verifies this self-assessment either in the software environment or physically in the concerned entity.

The input is continuously reviewed at group level 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 relevant, the FM/FD has the responsibility to perform or correct the control procedure and provide new evidence.

RISK ASSESSMENT

As for controls related to the financial area, 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. In 2012, the risk of damage to corporate integrity was addressed partly through the definition of controls for fixed assets accounting.

In 2012, two additional risks were assessed and addressed legal compliance in sales entities as well as personnel and assets exposure in sales entities.

CONTROL ACTIVITIES

As a response, in 2012 the Company finalised four additional control processes:

- Performance Discounts and Bonuses,
- Fixed Assets,
- Physical security,
- Legal activities.

Each control process, together with the associated policy or description, defines key control activities in the different steps of the processes. The Company also makes use these documents as training material for new employees.

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 encompass the controls that are most critical to the good execution of a specific process.

INFORMATION AND COMMUNICATION

The Company maintains 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 by 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 periodically reported to management and group functions concerned. The functional departments 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 2012:

– Accounts Payable control procedures.

– Sales control procedures.

The self-assessment of selected key controls of these two processes was reviewed by the Company's auditors.

Statements 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 2013

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	2012	2011
Sales	3	1,489,285	1,493,767
Cost of sales		(436,271)	(478,981)
Gross profit		**1,053,014**	**1,014,786**
Other income	4	55,904	56,739
Selling and marketing expenses		(644,147)	(649,059)
Administrative expenses	6, 7	(289,652)	(264,312)
Operating profit		**175,119**	**158,154**
Analysis of operating profit:			
Adjusted operating profit		175,119	164,062
Restructuring	29	–	(5,908)
Operating profit		**175,119**	**158,154**
Financial income	9	21,557	33,594
Financial expenses	9, 30	(43,782)	(69,934)
Net financing costs		**(22,225)**	**(36,340)**
Net profit before income tax		**152,894**	**121,814**
Current tax	10	(24,094)	(26,761)
Deferred tax	10, 15	(7,348)	4,767
Total income tax expense	**10**	**(31,442)**	**(21,994)**
Net profit		**121,452**	**99,820**
Earnings per share, €	11		
Basic		2.13	1.75
Diluted		2.13	1.75

The attached notes on pages 69 to 89 form an integral part of the consolidated financial statements.

Consolidated statements of comprehensive income

YEAR ENDED 31 DECEMBER

€'000	Note	2012	2011
Net profit		**121,452**	**99,820**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Revaluation reserve	20	13	(853)
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations	9, 20	4,663	(11,565)
Effective portion of changes in fair value of cash flow hedges, net of tax	9	(1,661)	(1,853)
Total items that are or may be reclassified subsequently to profit or loss		***3,002***	***(13,418)***
Other comprehensive income for the year, net of tax		**3,015**	**(14,271)**
Total comprehensive income for the year		**124,467**	**85,549**

The attached notes on pages 69 to 89 form an integral part of the consolidated financial statements.

Consolidated statements of financial position

€'000	Note	31 December 2012	31 December 2011
Assets			
Property, plant and equipment	12	251,584	201,959
Intangible assets	13	20,745	20,141
Investment property	14	999	1,071
Deferred tax assets	15	30,675	37,751
Other long-term receivables		1,605	2,086
Total non-current assets		**305,608**	**263,008**
Inventories	16	212,562	264,556
Trade and other receivables	17	84,808	75,172
Tax receivables		3,178	3,675
Prepaid expenses		44,375	44,939
Derivative financial assets	28.3	36,654	41,930
Cash and cash equivalents	18	106,246	137,040
Total current assets		**487,823**	**567,312**
Total assets		**793,431**	**830,320**
Equity			
Share capital	19	71,401	71,301
Reserves	20	(56,403)	(63,495)
Retained earnings		237,860	216,230
Total equity		**252,858**	**224,036**
Liabilities			
Interest-bearing loans	21	316,374	327,872
Other long-term non interest-bearing liabilities		3,173	536
Deferred income		527	510
Deferred tax liabilities	15	4,225	4,826
Total non-current liabilities		**324,299**	**333,744**
Current portion of interest-bearing loans	21	2,517	39,852
Trade and other payables	22	93,400	87,018
Tax payables		9,842	11,935
Accrued expenses	31	102,662	101,980
Derivative financial liabilities	28.3	4,235	5,120
Provisions	26	3,618	26,635
Total current liabilities		**216,274**	**272,540**
Total liabilities		**540,573**	**606,284**
Total equity and liabilities		**793,431**	**830,320**

The attached notes on pages 69 to 89 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	Treasury shares	Share premium	Legal reserve	Translation reserve	Hedging reserve	Other reserves	Total reserves	Retained earnings	Total Equity
At 1 January 2011		**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											
Revaluation Reserve		–	–	–	–	(853)	–	–	(853)	–	(853)
Foreign currency translation differences for foreign operations		–	–	–	–	(11,565)	–	–	(11,565)	–	(11,565)
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	23	–	–	–	–	–	–	(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**
At 1 January 2012		**71,301**	**–**	**13,198**	**7,363**	**(83,300)**	**(1,853)**	**1,097**	**(63,495)**	**216,230**	**224,036**
Net profit		–	–	–	–	–	–	–	–	121,452	121,452
Other comprehensive income											
Revaluation Reserve		–	–	–	–	13	–	–	13	–	13
Foreign currency translation differences for foreign operations		–	–	–	–	4,663	–	–	4,663	–	4,663
Effective portion of changes in fair value of cash flow hedges, net of tax		–	–	–	–	–	(1,661)	–	(1,661)	–	(1,661)
Total other comprehensive income for the year, net of income tax		**–**	**–**	**–**	**–**	**4,676**	**(1,661)**	**–**	**3,015**	**–**	**3,015**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**4,676**	**(1,661)**	**–**	**3,015**	**121,452**	**124,467**
Issuance of new shares	19	100	–	1,859	–	–	–	–	1,859	–	1,959
Share incentive plan	23	–	–	–	–	–	–	2,218	2,218	–	2,218
Dividends	20	–	–	–	–	–	–	–	–	(99,822)	(99,822)
At 31 December 2012		**71,401**	**–**	**15,057**	**7,363**	**(78,624)**	**(3,514)**	**3,315**	**(56,403)**	**237,860**	**252,858**

The attached notes on pages 69 to 89 form an integral part of the consolidated financial statements.

Consolidated statements of cash flows

YEAR ENDED 31 DECEMBER

€'000	Note	2012	2011
Operating activities			
Net profit before income tax		**152,894**	**121,814**
Adjustments for:			
Depreciation of property, plant and equipment	8, 12, 14	22,156	21,919
Amortisation of intangible assets	8, 13	4,727	4,840
Impairment of goodwill	13, 32	5,275	–
Change in fair value of borrowings and derivatives financial instruments		5,751	9,176
Deferred income		18	82
Share incentive plan		2,218	(2,728)
Unrealised exchange rate differences		(2,948)	3,088
Profit on disposal of property, plant and equipment, intangible assets and investment property		(136)	(606)
Financial income		(16,698)	(13,663)
Financial expenses		30,822	35,741
Operating profit before changes in working capital and provisions		**204,079**	**179,663**
Increase in trade and other receivables, prepaid expenses and derivative financial assets		(4,466)	(2,602)
Decrease in inventories		48,633	12,155
Increase/(decrease) in trade and other payables, accrued expenses and derivative financial liabilities		1,869	(15,477)
(Decrease)/increase in provisions		(5,367)	4,289
Cash generated from operations		**244,748**	**178,028**
Interest received		16,797	10,263
Interest and bank charges paid		(33,867)	(30,912)
Income taxes paid		(44,018)	(22,117)
Cash flow from operating activities		**183,660**	**135,262**
Investing activities			
Proceeds on sale of property, plant and equipment, intangible assets and investment property		571	1,884
Purchases of property, plant and equipment, and investment property		(66,032)	(46,727)
Purchases of intangible assets		(5,241)	(4,570)
Cash flow used in investing activities		**(70,702)**	**(49,413)**
Financing activities			
Proceeds from borrowings		103,094	530,818
Repayments of borrowings		(149,785)	(479,921)
Acquisition of subsidiary, net of cash acquired		(12)	–
Proceeds from issuance of new shares		1,906	1,302
Increase/(decrease) of finance lease liabilities		38	(4)
Dividends paid		(99,586)	(85,393)
Cash flow used in financing activities		**(144,345)**	**(33,198)**
Change in cash and cash equivalents		**(31,387)**	**52,651**
Cash and cash equivalents at 1 January		136,940	86,033
Effect of exchange rate fluctuations on cash held		618	(1,744)
Cash and cash equivalents at the end of the year net of bank overdrafts	18	**106,171**	**136,940**

The attached notes on pages 69 to 89 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 2012 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 2013.

(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 13 and 32 – impairment of intangible assets
- Note 16 – inventory reserves
- Note 17 – impairment allowance on trade receivables
- Note 23 – measurement of share-based payments
- Note 26 – provisions and contingencies
- Note 28 – valuation of financial instruments
- Note 29 – restructuring.

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 2012, Oriflame Cosmetics S.A. adopted new standards and amendments to standards which became effective 1 January 2012. These new accounting standards had no material effect on the consolidated financial statements.

Changes in presentation

IAS 1 Presentation of Financial Statements

Amendment to IAS 1, Presentation of Financial Statements – Presentation of items of other comprehensive income was early adopted by the Group. As a result, the Group presents separately the items of other comprehensive income that would be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. 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) Business combinations and related goodwill

Business combinations are accounted for using the acquisition method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The consideration transferred is measured at fair value and includes the fair value of any contingent consideration. Subsequent changes in contingent consideration, when not classified as equity, are recognised in profit or loss. The acquisition-related costs are charged to the income statement in the period in which they are incurred.

Goodwill is recorded as the surplus of the consideration transferred over the Group's interest in the fair value of the acquired net assets. Goodwill is not amortised but tested for impairment annually and upon the occurrence of an indication of impairment. The impairment testing process is described in the section (s) of the accounting policy.

(h) 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 (i)).

(i) 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.

(j) 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 or, in case of 3rd party suppliers, royalties income. 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.

(k) 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.

(l) 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.

(m) 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 and upon the occurence of an indication of 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 and upon occurrence of an indication of impairment. 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.

(n) 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

(o) 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.

(p) 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.

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

(r) 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.

(s) Impairment
The carrying amount of the Group's assets, other than inventories (see accounting policy (p)) and deferred tax assets (see accounting policy (l)), 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 and upon occurrence of an indication of impairment.

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.

(t) 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.

(u) Interest-bearing loans

(i) Loans at amortised cost

Interest-bearing loans at amortised cost are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans are stated at amortised cost with the difference between the cost 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 through 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. The Company designates financial liabilities at fair value through profit or loss to eliminate or significantly reduce a measurement or recognition inconsistency.

(v) 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.

(w) Trade payables

Trade payables are stated at cost.

(x) 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.

(y) 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.

(z) 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.

(aa) 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.

(ab) 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 on the next page.

New Standards or Interpretations		Effective date	Planned application by the Group in reporting year
IFRS 10 Consolidated Financial Statements	**	1 January 2014	2014
IFRS 11 Joint Arrangements	*	1 January 2014	2014
IFRS 12 Disclosure of Interests in Other Entities	*	1 January 2014	2014
IFRS 13 Fair Value Measurement	*	1 January 2013	2013
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine	*	1 January 2013	2013
IFRS 9 Financial Instruments	*	1 January 2015	2015

Revisions and amendments of Standards and Interpretations			
IAS 19 Employee Benefits (amended 2011)	*	1 January 2013	2013
IAS 27 Separate Financial Statements (2011)	*	1 January 2014	2014
IAS 28 Investments in Associates and Joint Ventures (2011)	*	1 January 2014	2014
Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)	*	1 January 2013	2013
Improvements to IFRSs (May 2012)	*	1 January 2013	2013
Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)	*	1 January 2014	2014
Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)	*	1 January 2014	2014
Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)	*	1 January 2014	2014
Government Loans (Amendments to IFRS 1)	*	1 January 2013	2013

* 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, Accessories and 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, licensee sales and royalties income. 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 2012

€'000	CIS & Baltics	EMEA	Latin America	Asia	Manu-facturing	All other segments	Total segments	Unallocated items	Total
Sales	799,979	413,913	100,615	164,814	1,204	8,760	**1,489,285**	–	**1,489,285**
Operating profit	136,644	62,411	8,673	11,672	6,215	571	**226,186**	(51,067)	**175,119**
Net financing costs									**(22,225)**
Net profit before income tax									**152,894**
Total income tax expense									**(31,442)**
Net profit									**121,452**
Capital expenditure	(10,325)	(2,041)	(1,244)	(1,893)	(48,237)	(11)	**(63,751)**	(7,522)	**(71,273)**
Depreciation & amortisation	(6,388)	(2,230)	(984)	(2,056)	(7,015)	(28)	**(18,701)**	(8,182)	**(26,883)**
Goodwill	–	6,328	–	4,345	–	–	**10,673**	–	**10,673**
Impairment of goodwill	–	(5,275)	–	–	–	–	**(5,275)**	–	**(5,275)**

Note 3, cont.

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**
Impairment of goodwill	–	–	–	–	–	–	**–**	–	**–**

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

€ million	2012	2011
Russia	460.0	477.5
Oriflame Cosmetics SA, Luxembourg*	5.9	5.7
All other	1,023.4	1,010.6
Total	**1,489.3**	**1,493.8**

* 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	2012	2011
Russia	162.9	110.7
Oriflame Cosmetics SA, Luxembourg*	20.0	19.9
All other	90.4	92.6
Total	**273.3**	**223.2**

* 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	2012	2011
Colour cosmetics	353.0	358.5
Skin care	324.6	313.7
Personal & Hair care	290.4	313.7
Fragrances	308.3	298.8
Accessories & Wellness	213.0	209.1
Total	**1,489.3**	**1,493.8**

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 is composed of:

€'000	2012	2011
Freight income	32,961	34,179
Printing income	21,618	21,768
Rental income	1,325	792
Other income	**55,904**	**56,739**

NOTE 5 • EMPLOYEE BENEFIT EXPENSE

€'000	2012	2011
Salaries and wages	131,731	131,205
Social security contributions	28,820	28,681
Pension expenses	6,138	5,820
Equity settled transactions	2,218	(2,728)
	168,907	**162,978**

The average number of full-time equivalents in 2012 was 7,465 (7,898).

NOTE 6 • AUDITORS' REMUNERATION

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

€'000	2012	2011
Auditors' remuneration for annual and consolidated accounts	1,460	1,301
Auditors' remuneration for other assurance services	149	178
Auditors' remuneration for tax advisory services	317	411
Auditors' remuneration for non-audit services	721	50
	2,647	**1,940**

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	2012	2011
Research and development	12,283	11,492

NOTE 8 • DEPRECIATION AND AMORTISATION

€'000	2012	2011
Depreciation	22,156	21,919
Amortisation	4,727	4,840
Depreciation and amortisation expenses	**26,883**	**26,759**

In 2012 amortisation expenses includes €38 (€24) which were presented in cost of sales.

NOTE 9 • FINANCIAL INCOME AND EXPENSES

Recognised in the consolidated income statements

€'000	2012	2011
Interest income on bank deposits	880	1,582
Interest received on finance lease receivable	103	54
Cross currency interest rate swaps income	15,715	12,027
Change in fair value of financial assets and liabilities at fair value held for trading:		
– Forward exchange rate contracts gain	1,875	1,220
– Cross currency interest rate swaps gain	1,823	18,711
– USD loan fair value gain	1,161	–
Foreign exchange gains, net	–	–
Total financial income	**21,557**	**33,594**
Bank charges and interest expense on loans carried at amortised cost	(7,884)	(18,009)
Interest expense on loan carried at fair value	(10,543)	(8,545)
Cross currency interest rate swaps expense	(12,395)	(9,187)
Change in fair value of financial assets and liabilities at fair value held for trading:		
– Forward exchange rate contracts expense	(8,704)	(2,048)
– Interest rate swaps expense	–	–
– Interest rate caps expense	(1,906)	(3,481)
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)
Foreign exchange losses, net	(2,350)	(5,086)
Total financial expenses	**(43,782)**	**(69,934)**
Net financing costs	**(22,225)**	**(36,340)**

Recognised in other comprehensive income

€'000	2012	2011
Changes in fair value of cash flow hedges	(2,559)	(2,059)
Tax on changes in fair value of cash flow hedges	256	206
Change in fair value of cash flow hedges reclassified to profit or loss:		
– Cost of sales	478	–
– Selling and marketing expenses	(52)	–
– Financial income	287	–
– Current tax	(71)	–
Effective portion of changes in fair value of cash flow hedges, net of tax	**(1,661)**	**(1,853)**
Foreign currency translation differences for foreign operations and revaluation reserve	4,676	(12,418)
Financial income / (expenses) recognised in other comprehensive income, net of tax	**3,015**	**(14,271)**

NOTE 10 • INCOME TAX EXPENSE

€'000	2012	2011
Recognised in the consolidated income statements		
Current tax expense	23,944	26,651
Adjustment for prior years	150	110
Current tax	**24,094**	**26,761**
Deferred tax expense/(income):		
Origination and reversal of temporary differences	5,076	(295)
Utilisation of tax losses carried forward	6,504	4,727
Change in recognition of deductable temporary difference (reversal)	548	–
Recognition of previously unrecognised deductible temporary differences	(541)	(1,224)
Recognition of previously unrecognised tax losses carried forward	(4,239)	(7,975)
Deferred tax	**7,348**	**(4,767)**
Total income tax expense in the consolidated income statements	**31,442**	**21,994**
Reconciliation of effective tax rate		
Net profit before income tax	152,894	121,814
Average applicable tax rate, %	20.9	14.6

%	2012	2011
Adjustment to tax expenses		
Non-deductible expenses	3.5	4.0
Utilisation of previously unrecognised tax losses carried forward	(0.3)	(0.1)
Recognition of previously unrecognised tax losses carried forward	(2.8)	(6.5)
Recognition of previously unrecognised deductible temporary differences	(0.4)	(1.0)
(Release)/increase of tax provision	(3.5)	4.1
Withholding taxes	2.4	1.8
Other taxes	0.7	1.0
Adjustments in respect of prior years	0.1	0.1
Effective tax rate	**20.6**	**18.1**

Average applicable tax rate is calculated as weighted average from separate countries tax reconciliations using the domestic tax rate in each individual jurisdiction.

Average applicable tax rate increased due to business volume movement in countries where applicable tax rate is higher (CIS and Latin America).

The tax rates of the Group's subsidiaries vary between 0 percent and 38 percent. The Group benefits from favourable tax regimes in a number of jurisdictions, 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 €121,452 (€99,820) and the weighted average number of shares outstanding during the year.

Number of shares	2012	2011
Weighted average number of shares outstanding	57,071,517	56,981,896

(b) Diluted

No dilution effect is recognised in the earning per share calculation in 2012 and 2011.

NOTE 12 • PROPERTY, PLANT AND EQUIPMENT

€'000	Freehold land & buildings	Improvements to leasehold property	Plant & machinery	Furniture & equipment	Computer equipment	Motor vehicles	Under construction	Total
Cost								
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**
Additions	5,897	3,049	10,574	1,871	2,855	1,321	40,465	66,032
Acquisition of business	–	–	–	152	4	–	–	156
Disposals	(62)	(936)	(297)	(725)	(1,605)	(962)	–	(4,587)
Re-classification	59,125	73	(185)	997	(281)	(15)	(60,019)	(305)
Revaluation	–	21	55	48	46	10	–	180
Translation	4,173	226	2,269	226	619	102	1,206	8,821
At 31 December 2012	**183,418**	**34,522**	**101,233**	**26,262**	**33,218**	**6,326**	**24,015**	**408,994**
Depreciation								
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**
Charge for the year	3,434	3,803	7,963	2,687	3,425	783	–	22,095
Disposals	(60)	(807)	(267)	(694)	(1,598)	(726)	–	(4,152)
Re-classification	–	74	(83)	(1)	(322)	27	–	(305)
Revaluation	–	19	44	41	46	8	–	158
Translation	777	70	1,190	216	540	83	–	2,876
At 31 December 2012	**25,165**	**20,382**	**60,054**	**19,733**	**28,095**	**3,981**	**–**	**157,410**
Net Book Value								
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**
At 31 December 2012	**158,253**	**14,140**	**41,179**	**6,529**	**5,123**	**2,345**	**24,015**	**251,584**

Property, plant and equipment under construction
Property, plant and equipment under construction category is related to the construction of the new manufacturing facility in Russia. The global distribution centre which is part of the project in Russia is under activity from the fourth quarter 2012 and has been therefore reclassified to the respective property plant and equipment categories.

Borrowing costs €'000
Capitalised borrowing costs related to the construction of the new factory amounted to €2,485 (€588) with a capitalisation rate of 5.2 percent (6.3 percent).

Finance leases €'000
Included in property, plant and equipment at 31 December 2012 is the net book value of assets under finance leases totalling €112 (€130), of which computer equipment €70 (nil), motor vehicles €42 (€130).

Contractual commitment
At 31 December 2012, the total contractual commitment amounts to €10.3 million (€8.4 million). Majority of these commitments are related to the construction of the new manufacturing facility in Russia.

NOTE 13 • INTANGIBLE ASSETS

€'000	Software	Trademarks	Licenses	Property rights	Goodwill	Total
Cost						
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**
Additions	5,054	187	–	–	–	5,241
Acquisition of business	9	–	–	–	5,275	5,284
Disposals	(147)	(5)	–	–	–	(152)
Re-classification	305	–	–	–	–	305
Revaluation	7	–	–	–	–	7
Translation	309	–	–	–	–	309
At 31 December 2012	**34,980**	**1,342**	**–**	**3,330**	**10,673**	**50,325**
Amortisation						
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**
Charge for the year	4,582	115	–	30	–	4,727
Impairment	–	–	–	–	5,275	5,275
Disposals	(149)	(3)	–	–	–	(152)
Re-classification	305	–	–	–	–	305
Revaluation	7	–	–	–	–	7
Translation	228	–	–	–	–	228
At 31 December 2012	**23,667**	**608**	**–**	**30**	**5,275**	**29,580**
Net Book Value						
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**
At 31 December 2012	**11,313**	**734**	**–**	**3,300**	**5,398**	**20,745**

Goodwill

During 1997, the Company 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 Company discontinued amortisation of existing goodwill and the carrying amount of the accumulated amortisation (€3.3 million) was eliminated with a corresponding decrease in goodwill.

The goodwill acquired through business acquisition as well as the impairment are explained in note 32 on page 89.

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 discount rate of 9 percent (9 percent). The recoverable amounts of the goodwill are determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial forecasts made by Group Management covering a five year period (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. Average market growth rates for the five year period (five year period) are for Portugal 0 percent (3 percent) and India 14 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

Note 13, cont.

below its carrying amount. The only impairment loss was recognised in 2012 due to impairment of the goodwill acquired through business acquisition (nil in 2011). The goodwill acquired through business acquisition as well as the impairment are explained in note 32 on page 89.

Property rights

At the beginning of 2009 the group has purchased the property rights for a dry food composition technology used in some of our 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 use pre-tax cash flow projection based on financial forecast covering a five year period (five year period). Calculation was based on an annual 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 2012 and 2011.

Software property rights

Included in software additions during the year are costs for own developed software for an amount of €430 (€627).

NOTE 14 • INVESTMENT PROPERTY

€'000	2012	2011
Gross carrying value at 1 January	**1,878**	**1,834**
Additions	–	10
Disposals	–	–
Translation effects	(30)	34
Gross carrying value at 31 December	**1,848**	**1,878**
Accumulated depreciation at 1 January	**807**	**726**
Charge of the year	61	57
Disposals	–	–
Translation effects	(19)	24
Accumulated depreciation at 31 December	**849**	**807**
Net book value at year end	**999**	**1,071**

Investment property includes commercial premises leased to third parties as well as a plot of land.

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

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	2012	2011
Rental income from investment property	302	322
Direct operating expenses	(13)	(13)
Depreciation	(61)	(57)
Net rental income	**228**	**252**

The fair value of investment properties has been estimated to the amount of €5.3 million (€6.0 million).

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

NOTE 15 • DEFERRED TAX

Deferred tax assets and liabilities at 31 December 2012 and 2011 are attributable to the items detailed in the table below:

	2012			2011			
€'000	Assets	Liabilities	Net	Assets	Liabilities	Net	Movement
Property, plant and equipment & intangible assets	4,924	(3,121)	1,803	1,293	(3,745)	(2,452)	4,255
Inventories	5,969	(384)	5,585	9,650	(115)	9,535	(3,950)
Trade and other receivables	1,696	(157)	1,539	1,420	(388)	1,032	507
Accruals	6,850	(170)	6,680	5,173	(30)	5,143	1,537
Other	2,571	(393)	2,178	8,725	(548)	8,177	(5,999)
Tax losses carried forward	8,665	–	8,665	11,490	–	11,490	(2,825)
Tax assets/(liabilities)	**30,675**	**(4,225)**	**26,450**	**37,751**	**(4,826)**	**32,925**	**(6,475)**
Recognised in other comprehensive income							391
Translation difference							(1,264)
Deferred tax expense							**(7,348)**

During the year the Group derecognised €0.5 million (€0 million) of deferred tax assets.

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.

Note 15, cont.

Unrecognised deferred tax assets

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

€'000	2012	2011
Property, plant and equipment & intangible assets	142	137
Inventories	475	861
Trade and other receivables	7,289	1,627
Accruals	535	6,199
Other	388	313
Total temporary differences*	**8,829**	**9,137**
Tax losses**	130,347	130,637
Total	**139,176**	**139,774**

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

** Of which €4.5 million (€2.8 million) expire within one year, €19.5 million (€2.6 million) expire between one and five years and €106.3 million (€125.2 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	2012	2011
Raw materials	15,609	17,931
Work in progress	360	184
Finished goods	211,116	250,579
Other inventories	22,229	37,910
Inventory reserves	(36,752)	(42,048)
Total inventory	**212,562**	**264,556**

During 2012 the Group wrote down €2.8 million (€19.5 million) inventory mainly due to obsolescence.

The carrying amount of inventories carried at fair value less cost to sell was €26.0 million (€25.1 million).

Finished goods mainly consist of Colour cosmetics, Skin care, Personal & Hair care, Fragrances, Accessories and Wellness products.

The amount of inventories recognised as expenses in cost of sales during the year 2012 were €436.3 million (€479.0 million).

NOTE 17 • TRADE AND OTHER RECEIVABLES

€'000	2012	2011
Trade receivables	54,151	50,111
Other receivables	30,657	25,061
Trade and other receivables	**84,808**	**75,172**

Exposure to credit risk

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

Carrying amount

€'000	2012	2011
CIS & Baltics	18,524	14,741
EMEA	23,983	25,367
Latin America	8,627	7,208
Asia	3,017	2,795
	54,151	**50,111**

Impairment losses

The ageing of trade receivables at the reporting date was:

	Gross	Impairment	Gross	Impairment
€'000	2012	2012	2011	2011
Not past due	43,227	1,101	43,452	836
Past due 21 – 180 days	13,953	3,812	9,917	3,543
Past due 181 – 360 days	4,431	3,289	4,805	3,829
Past due 12 – 18 months	4,447	4,259	3,939	3,863
Past due > 18 months	15,357	14,803	15,713	15,644
	81,415	**27,264**	**77,826**	**27,715**

Based on experience the Group records an impairment allowance on trade receivables not past due, which usually is around 1 to 3 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	2012	2011
Balance at 1 January	**27,715**	**23,953**
Impairment loss recognised	6,093	8,007
Specific debt write offs against provision	(6,544)	(4,245)
Balance at 31 December	**27,264**	**27,715**

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.

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 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**
Net flow	(51,541)	20,129	(31,412)	24	(31,387)
Exchange differences	497	121	618	–	618
At 31 December 2012	**85,400**	**20,846**	**106,246**	**(76)**	**106,171**

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

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 2010		**56,980,227**	**71,225**
Issue of new shares	(i)	60,907	76
Balance 31 December 2011		**57,041,134**	**71,301**
Issue of new shares	(ii)	80,000	100
Balance 31 December 2012		**57,121,134**	**71,401**

(i) 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.

(ii) On 14 of August 2012 the Group issued 80,000 shares to Oriflame employees as part of the 2012 share incentive plan. The consideration received was €2.0 milliion, of which €0.1 million was credited to share capital and €1.9 million was credited to share premium.

Treasury share

On 19 December 2012, the EGM approved the Board of Director's proposal to implement a share buyback program, allowing for the purchase of up to 10 percent of the company's shares, corresponding to a total of 5,712,113 shares, during a maximum period from 20 December 2012 until the 2014 Annual General Meeting ("AGM") to be held on 19 May 2014.

As at 31 December 2012 the Group does not own any treasury shares.

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 reserve in 2012 are the following:

(a) Exchange gain of €0.7 million (€6.6 million loss) arising on long term inter-company debt of an investment nature, and;

(b) A foreign exchange gain of €4.0 million (€5.8 million loss) 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 (€8.3 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 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.

In May 2012, the AGM of the Company approved a dividend of €1.75 per share, as proposed by the Board of Directors, i.e. €99.8 million in total.

The Board of Directors will propose to the AGM in May 2013 a dividend payment of €1.75 per share, amounting to €100.0 million. The effective dividend payment will be reduced by the dividend amount attributable to treasury shares acquired according to the current share buyback program. Treasury shares are not eligible for dividend.

(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	2012	2011
Non-current liabilities		
Loans	316,332	327,870
Finance lease long-term liabilities	42	2
	316,374	**327,872**
Current liabilities		
Short-term loans	2,407	39,715
Bank overdrafts	76	100
Finance lease short-term liabilities	34	37
	2,517	**39,852**

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 on 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 4.70 percent and 5.70 percent per annum.

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 2020. Interest is paid semi-annually and it is in the range between 5.00 percent and 6.50 percent per annum.

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

Both the Credit Facility and the Note Purchase Agreement 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 2012 and 2011.

Note 21, cont.

Terms and debt repayment schedule

The terms and conditions of outstanding loans were as follows:

€'000	Currency	Interest rate	Year of maturity	31 December 2012 Face value	31 December 2012 Carrying amount*	31 December 2011 Face value	31 December 2011 Carrying amount
Revolving bank facility	PLN	Wibor + margin	2016	–	(784)	9,421	7,793
Private placement loan	USD	Fixed rate USD coupon	2015–2020	121,324	139,304	121,324	140,626
Private placement loan	USD/ EUR	Fixed rate EUR and USD coupon	2018–2023	161,535	177,812	161,535	179,451
RUB uncommitted credit facility	RUB	Mosprime + margin	2012	–	–	35,996	35,996
Finance lease liabilities	PLN/ROM/CSK	between 6% and 12%	2018	93	76	41	39
Short term loans	Various	between 5% and 12%	2013	2,407	2,407	3,719	3,719
Bank overdrafts	TRL/INR/DSD	0% / 15%	2013	76	76	100	100
Total interest-bearing liabilites				**285,435**	**318,891**	**332,136**	**367,724**

* Difference between the face value and the carrying amount consists of the fair value difference and the amount of amortised front-end fees.

At 31 December 2012, the Group had total banking facilities available of €711.6 million (€700.0 million) of which €329.6 million (€377.8 million) have been utilised as bank short- and long-term loans as well as guarantees.

NOTE 22 • TRADE AND OTHER PAYABLES

€'000	2012	2011
Trade payables	44,906	52,523
Other payables	48,494	34,495
Trade and other payables	**93,400**	**87,018**

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, according to which participants will be offered to purchase at fair market terms shares up to €2.0 million per annum. 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 4 percent of the share capital of the Group. The achievement share mechanism is the same as under the 2008 share incentive plan, except that instead of receiving between 0 and 4 achievement shares, the participants will receive between 0 and 8 achievement shares.

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. In 2012, the total equity compensation cost recorded in Administrative expenses is €2.2 million (€2.7 million gain).

The number of investment shares is as follows:

Share schemes	2012	2011	*2010	2009
Granted at the beginning of the scheme	80,000	60,907	99,922	111,743
Forfeited during 2009	–	–	–	(949)
Forfeited during 2010	–	–	(618)	(10,627)
Forfeited during 2011	–	–	(1,500)	(560)
Outstanding at the beginning of the year	**80,000**	**60,907**	**97,804**	**99,607**
Forfeited during 2012	(122)	(1,202)	(2,572)	–
Expired during 2012	–	–	(4,823)	(99,607)
Exercised during 2012	–	–	–	–
Outstanding at the end of the year	**79,878**	**59,705**	**90,409**	**–**

* 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 Directors and key management personnel of the Company held beneficial interests in the shares of the Company at 31 December 2012 as follows:

	Number of shares 2012*
R. af Jochnick and family	4,758,851
J. af Jochnick and family	4,296,000
Alexander af Jochnick	418,884
Christian Salamon	14,940
Marie Ehrling	300
Lilian Fossum Biner	1,000
Helle Kruse Nielsen	1,000
Anders Dahlvig	13,650
Magnus Brännström	273,000
Jesper Martinsson	254,100
Gabriel Bennet	22,493

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

Note 24, cont.

The major shareholders, the af Jochnick family and the Stichting af Jochnick Foundation, jointly exercise control over 15,800,736 shares which represents 27.7 percent of the outstanding total shares as at 31 December 2012.

The key management personnel compensation is as follows:
For the year ended 31 December 2012, the members of the Board of Directors (excluding Magnus Brännström who is in his capacity as Chief Executive Officer is an employee) received total compensation of €305 (€298). The Chairman received €64 (€68).

For the year ended 31 December 2012, the Chief Executive Officer is entitled to receive total compensation of €1,496 (€1,169), of which €922 (€856) was salary, €231 (€0) bonus, €0 (€0) share incentive plan, €252 (€227) pension contributions under the pension scheme for senior management, and €91 (€86) other benefits and allowances.

For the year ended 31 December 2012 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 €2,243 (€1,717), of which €1,313 (€1,113) was salaries, €243 (€0) bonuses, €0 (€0) share incentive plan, €210 (€206) pension contributions under the pension scheme for senior management and €477 (€398) of other benefits and allowances.

The bonus compensation figures are based on the entitlement of the personnel to receive the bonus compensation as in previous year.

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	**2012**	**2011**	**2012**	**2011**
Expenses and employee costs incurred on behalf of and recharged to Medicover S.A.	(2,053)	(1,792)	(365)	(179)
Medicover health care services	332	360	1	(1)
SRS AB services	–	645	–	13

All transactions with related parties are done on arm's length basis. During the year ending 31 December 2012, 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 SA 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 provided 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
Special Trading Company Oriflame Caucasus*	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 East Africa Ltd*	Kenya	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 Nigeria Cosmetics Limited*	Nigeria	100
Oriflame Norge A/S	Norway	100
Oriflame Cosmetics Pakistan (PVT) LTD	Pakistan	100
Oriflame Peru S.A.	Peru	100
Oriflame Poland SP z o.o.	Poland	100
Oriflame Products Poland SP z o.o.	Poland	100
Oriflame Property Investments SP z o.o.	Poland	100

Note 25, cont.

Name	Country of incorporation	Percentage share capital held, %
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
Orflame Global e-Commerce AG	Switzerland	100
Oriflame East Africa Tanzania Ltd*	Tanzania	100
Oriflame Cosmetics (Thailand) Ltd	Thailand	100
Oriflame Management Asia Ltc	Thailand	100
Oriflame Kozmetik Urunleri Ticaret Ltd Sirketi	Turkey	100
Oriflame East Africa Uganda Ltd*	Uganda	100
DP "Oriflame Cosmetics" Ukraine	Ukraine	100
DP "Rielty Ukraine"	Ukraine	100
Oriflame Kosmetiks Co Ltd	Uzbekistan	100
Oriflame Vietnam Ltd.	Vietnam	100

* Created or acquired in 2012.

NOTE 26 • PROVISIONS, COMMITMENTS AND CONTINGENT LIABILITIES

(a) Provisions

€'000	Note	Tax litigations	Restruc-turing	Claims & other	Total
Balance at 1 January 2012		**19,602**	**1,198**	**5,835**	**26,635**
Provisions made during the year		375	525	700	1,600
Provisions used during the year		(14,581)	(881)	(934)	(16,396)
Provisions reversed during the year		(4,896)	–	(3,968)	(8,864)
Acquisition of business	32	643	–	–	643
Balance at 31 December 2012		**1,143**	**842**	**1,633**	**3,618**

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 €0.8 million relates to the restructuring of operation in the EMEA 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.

(c) Minimum lease commitments

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

€'000	2012	2011
Within one year	24,419	22,304
Between one and three years	30,552	30,554
Between three and five years	19,089	17,925
Over five years	3,527	4,718
	77,587	**75,501**

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 2012 €39.2 million (€35.0 million) was recognised as an expense in the consolidated income statements in respect of operating leases.

(d) Bank guarantees

At 31 December 2012, the Group had bank guarantees in place of €9.6 million (€8.0 million).

NOTE 27 • PENSIONS

All subsidiaries within the Group operate defined contribution schemes. Pension costs charged for the year for these schemes amounted to €6.1 million (€5.8 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 capital management. 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 to which the Group is exposed, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed on a regular basis to reflect changes in market conditions and in 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 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.

Note 28, cont.

(a) Foreign currency risk

Translation exposure

Translation exposure arises due to the financial results and balance sheet positions of operating subsidiaries 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 euro, the presentation currency. Countries having a functional currency other than 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 the 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 expense.

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 63 percent (58 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 2012 there were a variety of forward exchange contracts outstanding for a nominal amount equivalent of €134.5 million (€128 million) with maturities ranging from January 2013 to November 2014, to hedge selected currency transaction exposures and highly probable forecast transactions.

The group uses a variety of forward contracts amounting to €107.7 million (€100.4 million) at nominal value 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. As of 31 December 2012, the fair value of these forward contracts was €1.5 million loss (€0.9 million loss).

The Group claims cash flow hedge accounting for the variety of forward contracts and options amounting to €26.8 million (€27.6 million) at nominal value 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. As of 31 December 2012, the fair value of these forward contracts was €0.1 million gain (€0.2 million loss).

During 2012 the Group closed in total €141.9 million (€63.0 million) forward contracts related to the above mentioned variety of forward contracts. The total net realised result on all forward contracts closed in 2012 was €4.7 million loss (€0.3 million loss).

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 cost. 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. In January 2012, the Group repaid the outstanding loan balance under this facility. In April 2012, the Group entered into a new RUB 1.7 billion uncommitted revolving credit facility.

Similarly during 2011 the Group entered into a PLN 42 million loan under the €330 million facility to reduce its Polish zloty exposure. The loan was repaid in November 2012.

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.

Note 28, cont.

Exposure to currency risk

The Group's exposure for some of its main currencies was as follow:

2012	CLP	CZK	MXN	KZT	PLN	RUB	SEK	TRY	UAH	IDR
In €'000 equivalents										
Intra-group trading balances	2,524	(1,664)	3,720	13,860	(3,275)	101,647	13,119	4,389	33,363	3,526
Trade receivables / (payables)	–	–	–	–	6,335	–	(278)	–	–	–
Gross balance sheet exposure	**2,524**	**(1,664)**	**3,720**	**13,860**	**3,060**	**101,647**	**12,841**	**4,389**	**33,363**	**3,526**
Forward exchange contracts	–	–	–	*(5,958)	(12,609)	(60,903)	(6,618)	(2,977)	(16,073)	*(15,859)
Net Exposure	**2,524**	**(1,664)**	**3,720**	**7,902**	**(9,549)**	**40,744**	**6,223**	**1,412**	**17,290**	**(12,333)**

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 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)**

* The forward exchange rate contracts are € against USD.

The following significant exchange rates applied during the year:

	Average rate		Reporting date rate	
€	2012	2011	2012	2011
RUB	39.91	40.88	40.23	41.67
KZT	191.87	204.06	199.22	191.72
UAH	10.39	11.11	10.54	10.30
PLN	4.18	4.12	4.09	4.46

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 2011. 1 percent strengthening of the euro against the following currencies on average over the reporting year would have increased (decreased) the Group's operating profit or loss and equity as shown below.

Effect on Group operating profit in %	2012	2011
RUB	(1.3)	(1.5)
UAH	(0.4)	(0.4)
KZT	(0.2)	(0.2)
PLN	(0.2)	(0.2)

Effect on Group equity in € million	2012	2011
RUB	(1.1)	(1.2)
UAH	0.2	0.1
KZT	0.0	(0.1)
PLN	(0.5)	(0.6)

(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 cost. 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.

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 2011.

	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 2012				
Variable rate interest-bearing liabilities	(271)	271	–	–
Interest rate caps	2,949	(1,204)	–	–
Cross currency interest rate swaps	1,468	(1,524)	7,286	(7,875)
Cash flow sensitivity (net)	**4,146**	**(2,457)**	**7,286**	**(7,875)**

Note 28, cont.

Effects in €'000	Profit or (loss) 100 bp increase	Profit or (loss) 100 bp decrease	Other comprehensive income within equity 100 bp increase	Other comprehensive income within equity 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)**

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	2012	2011
Trade and other receivables	84,808	75,172
Cash and cash equivalents	106,246	137,040
Interest rate caps for trading	1,136	3,042
Forward exchange rate contracts for trading	540	1,029
Forward exchange rate contracts for hedging	187	187
Options for hedging	–	273
Cross currency interest rate swaps for trading	29,493	27,730
Cross currency interest rate swaps for hedging	5,298	9,669
	227,708	**254,142**

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 2012

€'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	318,739	(353,809)	(13,329)	(40,374)	(73,013)	(227,092)
Other long term liabilities	2,401	(2,401)	–	(2,401)	–	–
Finance lease liabilities	76	(93)	(46)	(33)	(14)	–
Trade and other payables	93,400	(93,400)	(93,400)	–	–	–
Bank overdrafts	76	(76)	(76)	–	–	–
Derivative financial liabilities						
Cross currency interest rate swaps for trading	1,021	(1,021)	(1,021)	–	–	–
Forward exchange rate contracts for trading	2,060	(2,060)	(1,533)	(527)	–	–
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)	121	(121)	(121)	–	–	–
Total	**418,927**	**(454,014)**	**(110,559)**	**(43,335)**	**(73,027)**	**(227,092)**

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)	–	–	–
Total	**459,862**	**(501,145)**	**(146,432)**	**(26,056)**	**(54,295)**	**(274,362)**

Note 28, cont.

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.

Oriflame Cosmetics S.A. has launched a first share buyback program with a repurchase notional of SEK 350 million, which at the prevailing share price is equivalent to approximately 3 percent of the outstanding share capital. The Group decided to repurchase up to 5,712,113 of the Company's shares or Swedish Depositary Receipts (SDRs), equivalent to 10 percent of the current share capital. The purpose of the share buybacks is to optimise the capital structure. As at 31 December 2012 the Group had not repurchased any shares.

Apart from the above mentioned share repurchase program, no other changes have been made in the objectives, policies, or processes for managing capital during the year ended 31 December 2012.

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 2012		31 December 2011	
€'000	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets carried at amortised cost				
Trade and other receivables	84,808	84,808	75,172	75,172
Cash and cash equivalents	106,246	106,246	137,040	137,040
Total loans and receivables	*191,054*	*191,054*	*212,212*	*212,212*
Total financial assets carried at amortised cost	**191,054**	**191,054**	**212,212**	**212,212**
Financial assets carried at fair value				
Cross currency interest rate swaps for trading	29,493	29,493	27,730	27,730
Interest rate caps for trading	1,136	1,136	3,042	3,042
Forward exchange rate contracts for trading	540	540	1,029	1,029
Total derivatives for trading	*31,169*	*31,169*	*31,801*	*31,801*
Cross currency interest rate swaps for hedging	5,298	5,298	9,669	9,669
Forward exchange rate contracts for hedging	187	187	187	187
Options for hedging	–	–	273	273
Total derivatives for hedging	*5,485*	*5,485*	*10,129*	*10,129*
Total derivative financial assets	*36,654*	*36,654*	*41,930*	*41,930*
Total financial assets carried at fair value	**36,654**	**36,654**	**41,930**	**41,930**
Financial liabilities carried at amortised cost				
Loans	(120,841)	(133,005)	(168,526)	(184,694)
Other long term liabilities	(2,401)	(2,401)	–	–
Trade and other payables	(93,400)	(93,400)	(87,018)	(87,018)
Finance lease liabilities	(76)	(93)	(39)	(41)
Bank overdrafts	(76)	(76)	(100)	(100)
Total financial liabilities carried at amortised cost	**(216,794)**	**(228,975)**	**(255,683)**	**(271,853)**
Financial liabilities carried at fair value				
USD loan	(197,898)	(197,898)	(199,059)	(199,059)
Total designated as such upon initial recognition	*(197,898)*	*(197,898)*	*(199,059)*	*(199,059)*
Cross currency interest rate swaps for trading	(1,021)	(1,021)	(1,513)	(1,513)
Forward exchange rate contracts for trading	(2,060)	(2,060)	(1,952)	(1,952)
Total derivatives for trading	*(3,081)*	*(3,081)*	*(3,465)*	*(3,465)*
Cross currency interest rate swaps for hedging	(1,033)	(1,033)	(1,033)	(1,033)
Forward exchange rate contracts for hedging	(121)	(121)	(622)	(622)
Total derivatives for hedging	*(1,154)*	*(1,154)*	*(1,655)*	*(1,655)*
Total derivative financial liabilities	*(4,235)*	*(4,235)*	*(5,120)*	*(5,120)*
Total financial liabilities carried at fair value	**(202,133)**	**(202,133)**	**(204,179)**	**(204,179)**
Unrecognised loss		(12,181)		(16,170)

Note 28, cont.

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.

Derivatives 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 cost

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.

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 2012				
USD loans	–	(197,898)	–	(197,898)
Derivative financial assets	–	36,654	–	36,654
Derivative financial liabilities	–	(4,235)	–	(4,235)
	–	**(165,479)**	**–**	**(165,479)**

€'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)**

NOTE 29 • RESTRUCTURING

No restructuring costs have been booked in 2012. In 2011, restructuring costs of €5.9 million were included in the Administrative expenses.

€ million	2011	
EMEA	3.2	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 Restructuring costs	**5.9**	

NOTE 30 • HYPERINFLATION

Belarus was operating in a hyperinflationary economy during the year ended 31 December 2012 and 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 2012 was amounting to 21.8. The increase of the index during the period was 21.8 percent and 108.7 percent during previous period.

In the net foreign exchange loss included in the financial expenses is a loss of €0.3 (€3.1 gain) million related to net monetary position.

NOTE 31 • ACCRUED EXPENSES

€'000	2012	2011
PD & Bonus	33,621	54,620
Staff related accruals	22,397	14,278
Other accruals	46,644	33,082
Total accrued expenses	**102,662**	**101,980**

NOTE 32 • ACQUISITION OF SUBSIDIARY

The Group has expanded its operation into East Africa by acquiring 100 percent of Oriflame East Africa Ltd and its subsidiaries, the entities running the businesses in Kenya, Tanzania and Uganda previously run by a franchisee. The acquisition is in line with Oriflame's strategy of further expanding its geographical footprint in global growth areas by making inroads into Sub-Saharan Africa.

After very encouraging experiences and success in Oriflame's present North Africa business, the Group is expanding its market presence by acquiring these franchisee operations in East Africa. This is in line with the long term commitment to develop the direct sales of cosmetics on the African continent.

The operations will be run in three separate legal entities managed from Kenya. The acquisition was concluded on 29 May 2012 and the legal entities are part of the EMEA region as from 1st April 2012. The acquired entities had not a material impact on the Group's financial statements of 2012.

Note 32, cont.

Consideration transferred

The following summarises the acquisition-date fair value of each major class of consideration transferred:

€'000	2012
Cash	53
Contingent consideration	700
Total	**753**

Contingent consideration

The Group has agreed to pay out additional consideration up to a maximum of €700 thousand related to the annual net profit up to 2017. The consideration will be paid out on annual basis. The Group has included the full amount as contingent consideration.

Identifiable assets acquired and liabilities assumed at the acquisition date and revised during the measurement period of one year

The following summarises the recognised amounts of assets acquired and liabilities assumed.

€'000	At acquisition date 2012	Adjustment 2012	Revised amount 2012
Property, plant and equipment	156	–	156
Intangible assets	9	–	9
Deferred tax assets	532	(532)	–
Total non-current assets	**697**	**(532)**	**165**
Inventories	150	–	150
Trade and other receivables	42	–	42
Prepaid expenses	26	–	26
Cash and cash equivalents	41	–	41
Total current assets	**259**	**–**	**259**
Total assets	**956**	**(532)**	**424**
Trade and other payables	(3,497)	–	(3,497)
Tax payables	(28)	–	(28)
Accrued expenses	(795)	–	(795)
Provision	(639)	–	(639)
Translation reserves	–	13	13
Total current liabilities	**(4,959)**	**13**	**(4,946)**
Total net identifiable liabilities	**(4,003)**	**(519)**	**(4,522)**

At acquisition date provision included contingent liabilities of €639. As at 31 December 2012 the provision amounts to €643.

Adjustment

Deferred tax assets have been re-assessed during the measurement period of one year after the acquisition date. The re-assessment indicates that the losses carried forward constituting the main part of the deferred tax assets will not be recoverable within the local losses carried forward expiring period.

Goodwill

Goodwill was recognised as a result of the acquisitions as follows:

€'000	At acquisition date 2012	Adjustment 2012	Revised amount 2012
Total consideration transferred	753	–	753
Fair value of identifiable liabilities	4,003	519	4,522
Goodwill	**4,756**	**519**	**5,275**

The goodwill was attributable mainly to the existing sales force in the three markets. The Group still see a big long-term potential for further developing the Group in Africa. The goodwill recognised was not deductible for tax purposes.

Acquisition related costs

The Group incurred acquisition-related costs of €109 thousand related to external legal fees and due diligence costs. These costs have been recognised in administrative expenses in the Group's consolidated statement of comprehensive income.

Goodwill of East Africa

Gross Value	
At 31 December 2011	**–**
Initial recognition of the goodwill	4,756
Adjustment	519
At 31 December 2012	**5,275**

Accumulated impairment	
At 31 December 2011	**–**
Impairment of the goodwill	5,275
At 31 December 2012	**5,275**

Net book Value	
At 31 December 2011	**–**
At 31 December 2012	**–**

Impairment

For the purposes 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 discount rate of 9 percent. The recoverable amounts of the goodwill are determined based on value-in-use calculations. These calculations use pre-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 forecasted figures. Growth rate assumptions used for the evaluation are in line with linear internal growth rate. Average growth rates for the five year period are 26 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 change in the key assumptions results in 100 percent of the carrying amount being in excess of the recoverable amount. As such 100 percent of the carrying value has been impaired and the related goodwill impairment loss of €5,275 is included within Administrative expenses.

Report of the Réviseur d'Entreprises agréé

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 21 May 2012, 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 2012 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 64 to 89.

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 64 to 89, give a true and fair view of the consolidated financial position of Oriflame Cosmetics S.A. as of 31 December 2012, 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 2013

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.

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 2012*: 4,758,851.

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.

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 2012*: 4,296,000.

Not independent from the Company or its major shareholders.

ALEXANDER AF JOCHNICK
Board Member

Born in 1971.

Elected to the Board in 2007.

Member of the Remuneration Committee. Member of the Audit Committee.

BSc in Business Administration Stockholm School of Economics.

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

Shareholding in Oriflame as at 31 December 2012*: 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.

Chairman of Seldia, European Direct Selling Association and Vice Chairman of World Federation of Direct Selling Associations.

Shareholding in Oriflame as at 31 December 2012*: 273,000.

Not independent from the Company being CEO.

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

Board of Directors

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, Resurs Bank AB and Pret à Manger.

Shareholding in Oriflame as at 31 December 2012*: 13,650.

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.

Chairman of Telia Sonera AB, Vice Chairman of Nordea Bank AB. Board member of Axel Johnson AB, Securitas AB, Schibsted ASA, Loomis AB, IVA and CASL at Stockholm School of Economics. Chairman of Norwegian Swedish Chamber of Commerce.

Shareholding in Oriflame as at 31 December 2012*: 300.

Independent from the Company and its major shareholders.

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 S.A., a-connect ag and Nobia AB.

Shareholding in Oriflame as at 31 December 2012*: 1,000.

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 and Lantmännen ek för.

Shareholding in Oriflame as at 31 December 2012*: 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 Group AB and Oresa Ventures S.A. Advisory board member of Sustainable Technologies Fund and Investment Committee member of Fagerberg & Dellby and eEquity.

Shareholding in Oriflame as at 31 December 2012*: 14,940.

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

Magnus Brännström	**Chief Executive Officer & President**
Katrin Alakbarov	VP Central Asia and MD Kazakhstan
Joakim Banestig	VP Finance Asia
Gabriel Bennet	Chief Financial Officer (CFO)
Kjell Blydt Hansen	VP Finance Global Supply
Michael Cervell	SVP Global Brand and Communications and Strategic Business Development
Robin Chibba	VP Finance Latin America
Claudia Crescenzi	VP General Counsel
Tatiana Egorova	VP Finance CIS
Thomas Ekberg	SVP and Head of EMEA
Alfredo Elespuru	VP Group Treasury
Mathias Ericsson	VP Quality and Process Management
Niklas Frisk	VP and Head of South Asia and MD India
Krasimir Gaydov	VP Global IT
Konrad Gluchowsky	VP Supply Chain & Operations CIS
Carlos Gonzalesguerra	VP Finance EMEA
Neil Holden	VP Supply Chain & NPD Asia
Torsten Hustert	VP Finance Marketing and R&D and NPD Process
Didier Jourdan	SVP Global Supply
Christian Jönsson	VP Global Shared Services
Sergei Kanashin	SVP and Head of Latin America
Georgi Karapanchev	VP Group Risk and Compliance
Stefan Karlsson	SVP Special Projects
Jonathan Kimber	EVP Global Operations
Edwin Koehler	VP Purchasing
Johan Larsson	VP EMEA Central and MD Poland
Mary Lord	SVP Research & Development
Pavlina Marinova	VP IBM Process
Jesper Martinsson	Deputy CEO
Pontus Muntzing	VP Business Development
Yura Mykhaylyuk	VP Russia
Mats Palmquist	SVP and Head of CIS
Jolanta Pastor	VP Marketing EMEA
Joanna Poplawska	SVP Manufacturing
Andreas Risberg	VP Supply Chain & Operations EMEA
Johan Rosenberg	EVP Global Marketing and R&D
Santiago Salazar	VP Mexico
Antonia Simon-Stenberg	Senior Advisor Sustainability
Armando Stagno	VP Planning & Logistics
Olga Svechnikova	VP Marketing CIS
Stephen Syrett	VP Commercial Marketing
Tesselschade Van Dijk Naaijkens	VP Human Resources
Fredrik Widell	VP and Head of Asia Pacific
Anders Ågren	VP Investor Relations & Projects

Financial calendar 2013

- First quarter 2013 on 25 April
- Annual General Meeting on 21 May
- Second quarter 2013 on 15 August
- Third quarter 2013 on 12 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.

ORIFLAME INVESTOR RELATIONS CONTACTS

Anders Ågren,
Vice President Investor Relations & Projects
Phone +46 765 422 353

Johanna Palm,
Director Investor Relations & Financial Projects

IR@oriflame.com

This annual report is produced by Oriflame Cosmetics in cooperation with Vero Kommunikation and Soformia.
Photos: Mats Högberg and Oriflame Cosmetics.