

Annual Report 2017

ORIFLAME
— S W E D E N —





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“As a makeup artist, Oriflame impressed me so much that I wanted to share the products with more people. I love this entrepreneurial experience!”

Zhang Lu
Independent Oriflame Manager, China

“Oriflame has been a life changing experience for me. My journey from a housewife to a business woman has been phenomenal. My dream of living an independent life has come true with the fantastic Oriflame opportunity.”

Suparna Sinha
Independent Oriflame leader (Gold Director), India



Enabling change

Oriflame's business success is built on a simple formula: combine people's natural desire to improve their lives with the right opportunity, and it creates real, positive, change.

We are proud to offer people all over the globe the opportunity to make that change. If they share our passion for beauty and wellness, we can help them bring more of it into the world. For the majority, that means saving money while enjoying our responsible beauty and wellness products. For the others, it means using our direct-selling model to earn an income or to build a business.

Oriflame has a proven business model, perfect for the modern networking world. It is flexible, digital and powered by millions of trusted relationships and recommendations. With no risk beyond a small joining fee, we offer "entrepreneurship in a box".

By accelerating our business, we have a positive impact on people and communities around the world. The value of local entrepreneurship in our global society is well recognised, from the jobs it generates to the skills it nurtures.

50 years in, Oriflame is the choice of three million people. Looking ahead, we are committed to continuing to build on this simple formula – empowering people and enabling positive change around the world.



Statement from the CEO

2017 was a fantastic year for Oriflame, the year that the company celebrated its 50th anniversary. Behind this year's results – where we delivered healthy growth, a significant increase in profitability and a strengthened financial position – were long-term strategic activities and the shared commitment of many people.

Ever since it was founded, Oriflame has been about daring to tackle and adapt to challenges. We are used to tough markets and operating in regions where some see difficulties but we see opportunities. On some occasions, we have needed to take bigger leaps than others. It was about five years ago that we realised that we had to take one of those leaps and make a transformation, without harming the core of our operations. That was when we laid the foundation for the strategy of which we are now reaping the rewards.

The income opportunity

Oriflame's idea is to give people around the world the opportunity to change their lives by offering entrepreneurship and personal development. That is why everything we do is based on the development and business opportunities of our Consultants. What creates success for them, creates success for us.

Flexibility, development and the ability to control one's own time are becoming increasingly important for the Consultants and customers of tomorrow. We asked ourselves how we can

remain relevant and ensure that our Consultants' involvement in Oriflame is worth it. How could they earn more, without working more? Selling many more products proved not to increase their earnings ability. On the contrary, it involved more work and just marginally better earnings. We needed to upgrade our offering to add value.

By focusing on the strategic product categories of Skin Care and Wellness we found that added value. High-value and high-margin products drive profitable growth, create brand value and loyalty – thereby supporting the growth of the company as well as the earnings opportunities for our Consultants.

The digital transformation

I have often said that Oriflame transformed from home parties to influencers, and by that I mean that our 50-year-old business model of personal relationships has an obvious online relevance. This has been a natural transformation for us, an adjustment of the model to a more modern way of thinking, communicating and interacting. There are many examples of people who have developed themselves and their operations online. Many, particularly in Asia, started their business online and have reached high levels in a short space of time. Others, with many years of offline experience as Oriflame leaders in for example CIS, have managed to successfully transition and are now leaders working online in their market.

The geographical balance

Striking a more balanced geographical mix has also been a clear part of our strategy. You can never predict exactly what the future will hold in a changeable world, which is why the mix we see today is the result of both a conscious strategy and external factors. Oriflame is now a more balanced global company than it was a few years ago, particularly due to the investments we have made in our six strategic markets. We see immense potential in both our more mature and our growth markets, and we will also continue to enter new markets. What we know for certain is that the geographical balance will continue to vary over time.

The DNA

Oriflame is a growth-oriented company. Curiosity and entrepreneurship are part of our DNA. At its core, Oriflame is also a support function for those who run the business – our Consultants and leaders. They are the ones who decide and set the direction. Whatever route they choose, they should be able to work with us. For us at the company, it is about providing them with the right tools in terms of sharing best practice, training, development and ideas. It is also about enabling them to operate the business in a more sustainable way and I am proud of the various sustainability initiatives taken. In 2017, over 8% of palm oil used in finished goods was certified by Mass Balance and the remaining usage was covered by RSPO credits.

2017 was a successful year in which Oriflame also celebrated its 50th anniversary. As part of our anniversary celebrations, 6,000 people sailed together in the Mediterranean and we felt a special sense of pride in sharing something with so many people who had all contributed to this journey that we are on. We are now looking forward to taking on new challenges, with great enthusiasm. We hold a strong position in many of our markets and have a financial position that instills us with both confidence and courage. Oriflame is a 50-year-old in the prime of life and we are successively building up an organisation that will continue to generate profitable growth.

A changeable world and an unpredictable future are simply part of our everyday lives. We have a strong platform to stand on, with a business model that has proven to be adaptable, and a genuine corporate culture. Our main focus now is on raising our Consultants to new levels and helping customers to find the right products. Our task is to ensure that we create value – for our Consultants, our employees, our shareholders and our surroundings.

Magnus Brännström

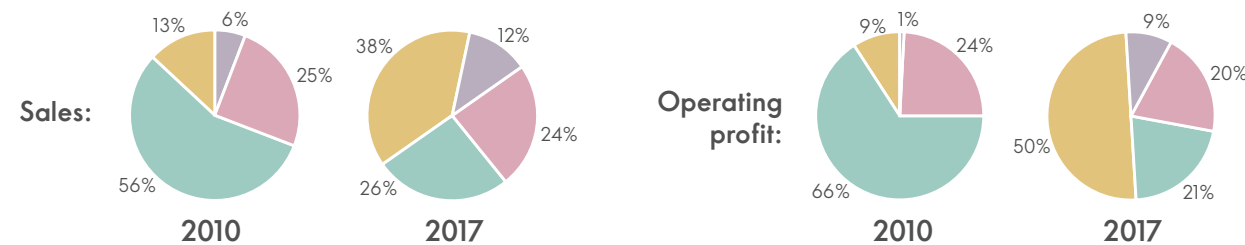
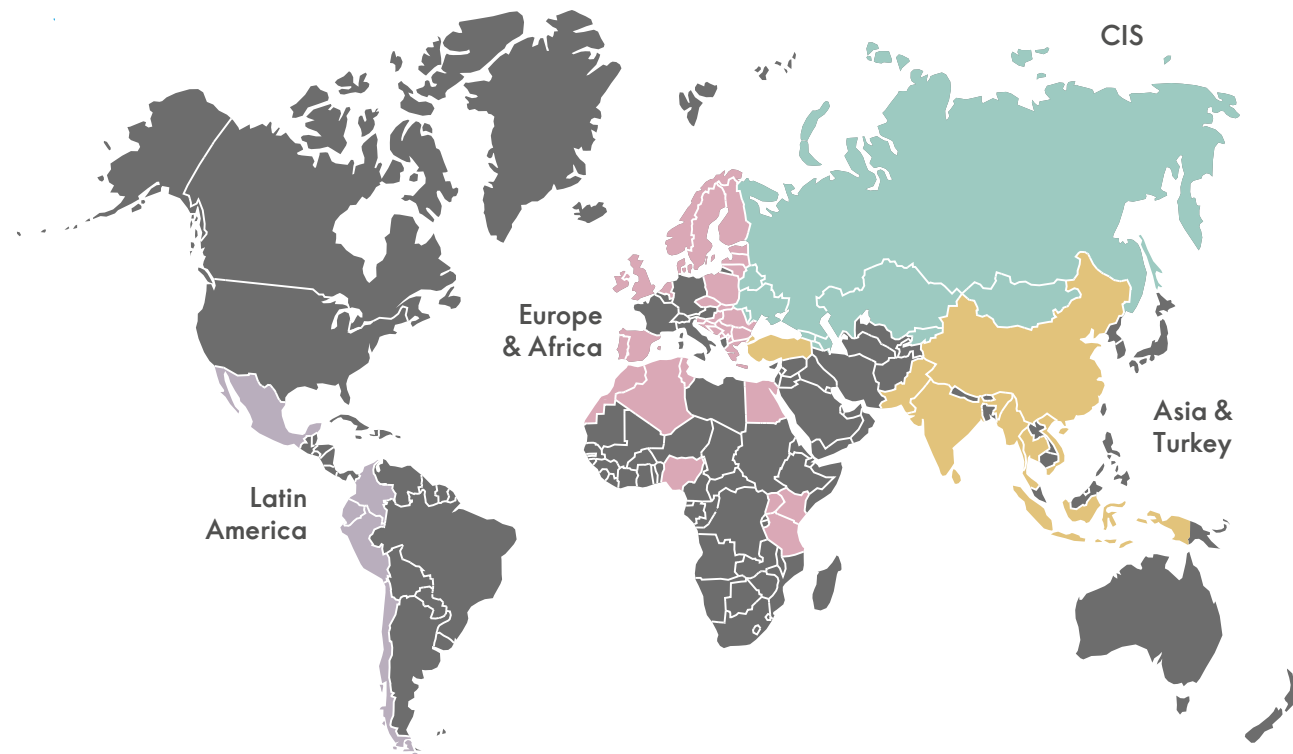
Magnus Brännström, CEO & President





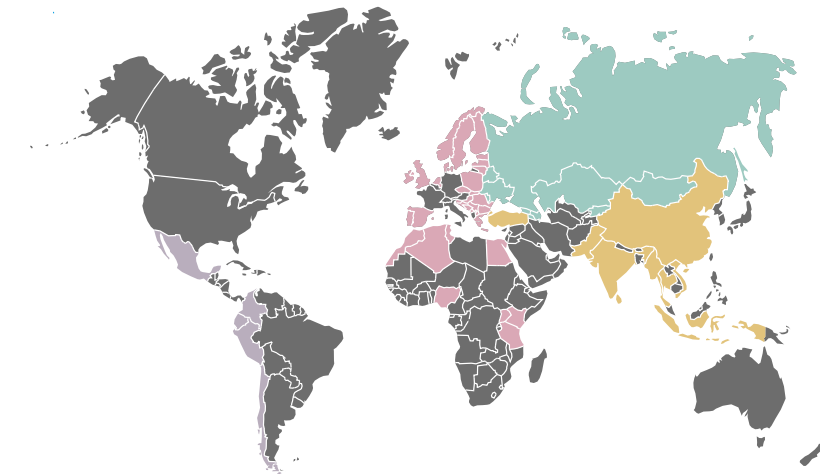
Markets in 2017

Rapid shift in geographical footprint



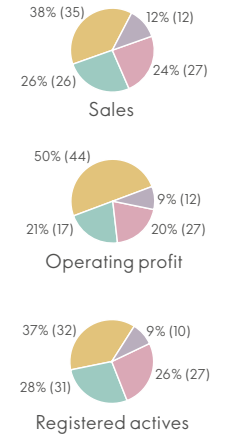
Strategic markets:

- Mexico
- Russia
- Turkey
- India
- China
- Indonesia



Group

Oriflame is currently present in more than 60 markets, including markets operated by franchisees. Six of these have been identified as strategic markets, where the company will focus its resources and investments in order to grow its global business going forward.



2017 development in brief

- Local currency sales rose by 11% and Euro sales increased by 9%
- Registered actives increased by 2% to 3.1 million Oriflame Consultants
- The operating margin was 11.7% (9.5%)

2017 was another year of healthy Euro growth, double-digit local currency growth and strong profitability improvements for the Oriflame Group. The performance in Asia & Turkey remained strong and CIS returned to growth – supported by sustained high productivity levels. Latin America recorded healthy growth and the development in Europe & Africa was mixed, with solid underlying growth in Africa and stable sales in Europe.

Operations

Production

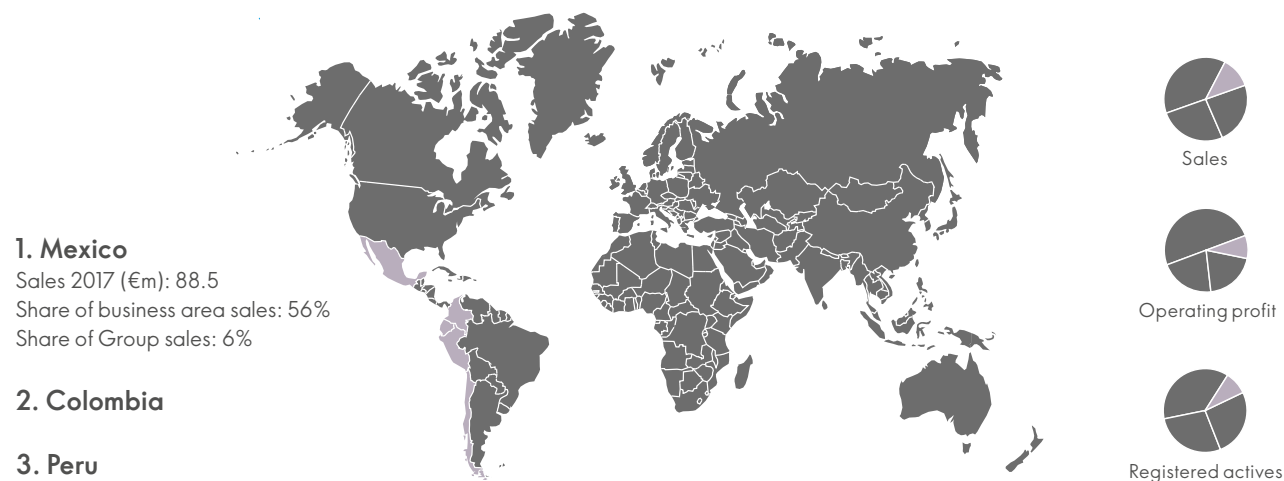
Six production facilities in four countries.

Group Distribution Centres

Four Group Distribution Centres in four countries.

Offices

- Corporate Office in Schaffhausen (Switzerland)
- Group Support Offices in Dublin (Ireland), Luxembourg (Luxembourg), Stockholm (Sweden), Stuttgart (Germany) and Warsaw (Poland)
- Global IT Centre of Excellence in Olomouc (Czech Republic)
- GS Finance Centre of Excellence in Warsaw (Poland)



Latin America

Chile, Colombia, Ecuador, Mexico, Peru

2017 development in brief

- Local currency sales rose by 8% and Euro sales increased by 6%
- Registered actives decreased by 3% to 0.3 million Oriflame Consultants
- The operating margin was 13.2% (14.6%)

Healthy development in Mexico during the year, although affected by lower consumer confidence. Ecuador recorded strong growth while the performance in Colombia was weak. The solid productivity level in the region was a result of price increases and higher sales of Skin Care and Wellness sets and routines.

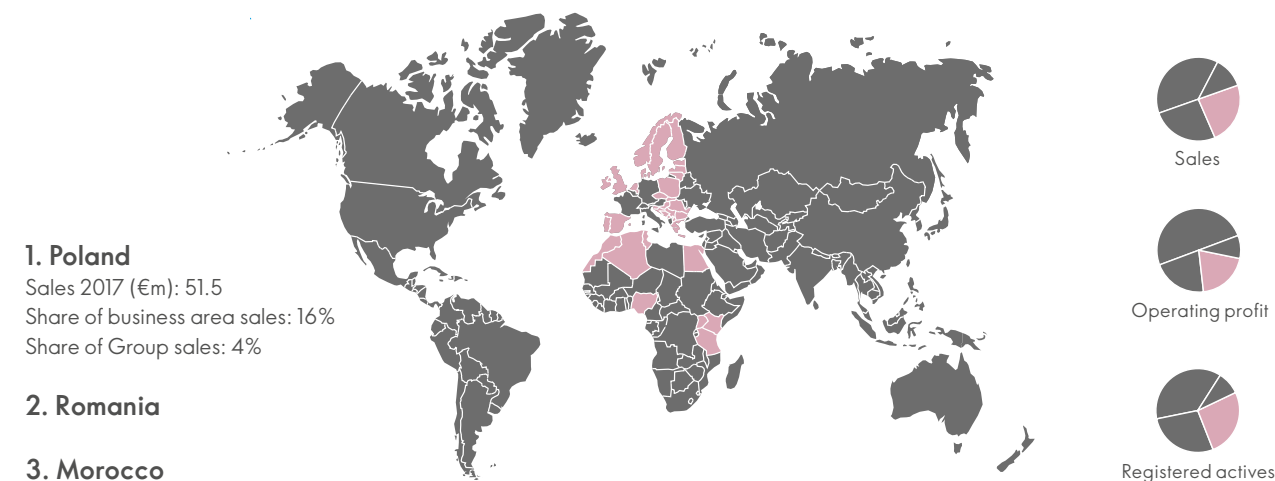
Operations

Offices

Regional Office in Mexico City (Mexico).

Catalogue creation and printing

Created in the regional office in Mexico City. Printed in Mexico, Chile and Ecuador for all Latin American markets.



Europe & Africa

Algeria, Bosnia, Bulgaria, Croatia, Czech Republic, Denmark, Egypt, Estonia, Finland, Greece, Holland, Hungary, Kenya, Kosovo, Latvia, Lithuania, Macedonia, Montenegro, Morocco, Nigeria, Norway, Poland, Portugal, Romania, Tanzania, Tunisia, Serbia, Slovakia, Slovenia, Spain, Sweden, Uganda, UK/Ireland

2017 development in brief

- Local currency sales increased by 4% and Euro sales decreased by 1%
- Registered actives decreased by 4% to 0.8 million Oriflame Consultants
- The operating margin was 13.9% (15.2%)

Stable sales development in Central Europe, with healthy development in the main markets of Poland and Romania. Western Europe displayed a weaker performance as a result of poor leadership development. The solid underlying growth in Africa was driven by Egypt and Nigeria, although the region continued to be impacted by macroeconomic and exchange rate challenges.

Operations

Production

- WARSAW (POLAND) – Global factory supplying all regions. Skin Care, Body Care/Toiletries, Colour Cosmetics (Colour emulsions) and Toothpaste.

Group Distribution Centres

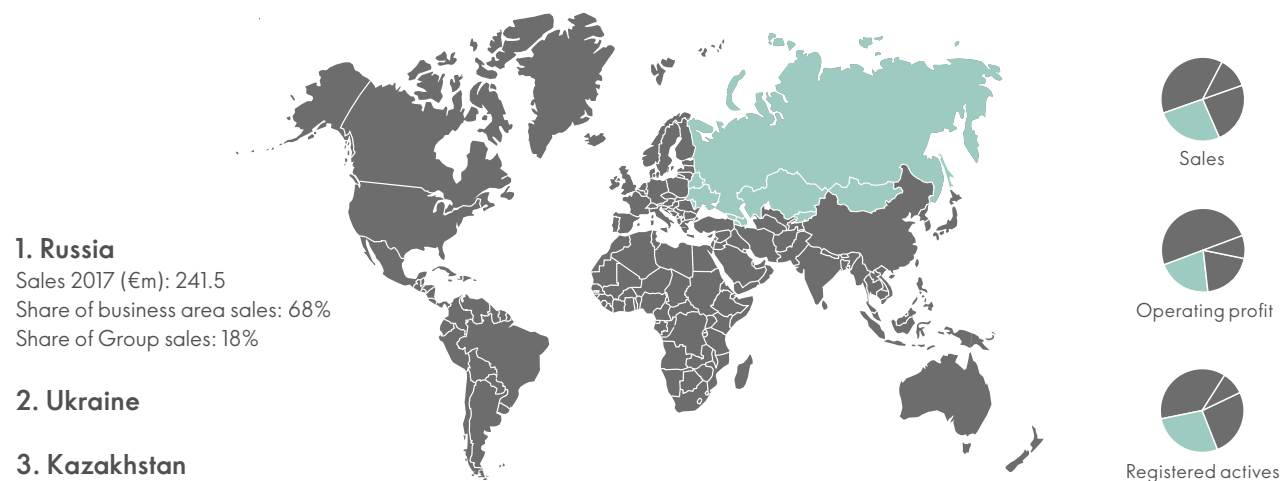
- WARSAW (POLAND) – Serving 11 markets
- BUDAPEST (HUNGARY) – Serving 12 markets

Offices

Regional Office in Warsaw (Poland).

Catalogue creation and printing

Central European and African catalogue created in Poland, Western European catalogue created in Sweden. Central European markets printed in Poland and Western European markets in Ukraine. The majority of the African markets are printed locally in each market.



2017 development in brief

- Local currency sales rose by 2% and Euro sales increased by 10%
- Registered actives decreased by 7% to 0.9 million Oriflame Consultants
- The operating margin was 12.7% (9.8%)

Online activity and leadership development remained high in the region. Russia returned to growth during the year, supported by high productivity levels. The situation in Ukraine and Kazakhstan improved during the second half of the year, although the countries were continuously impacted by macroeconomic challenges.

Operations

Production

- NOGINSK (RUSSIA) – Global factory supplying all regions. Shampoos, deodorants, liquid soaps, lipsticks and lip glosses, other cosmetics products.

Group Distribution Centres

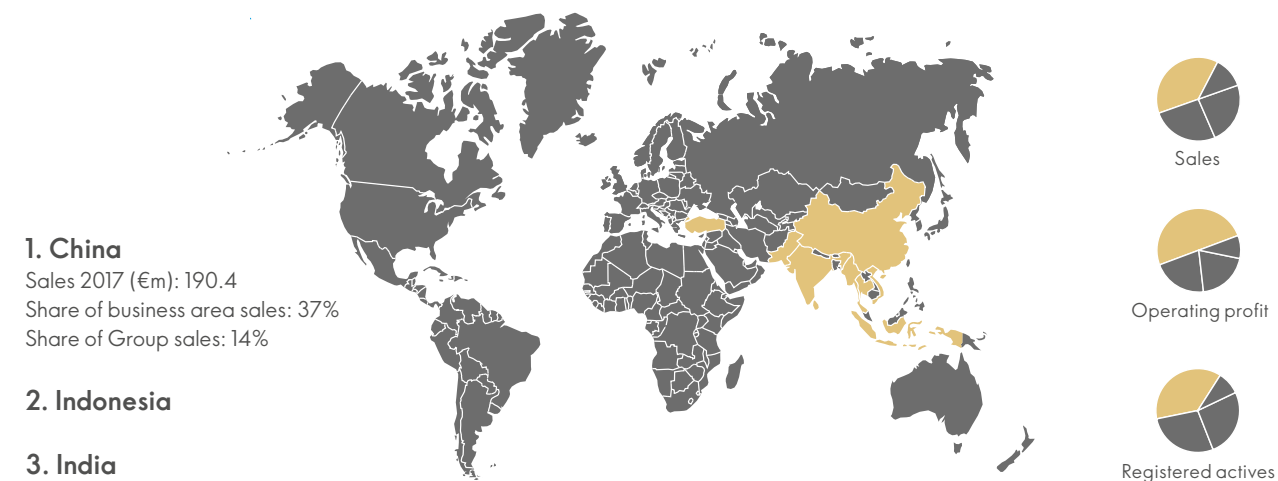
- KIEV (UKRAINE) – Serving the Ukrainian market.
- NOGINSK (RUSSIA) – Serving primarily the Russian and Belarusian markets.

Offices

Regional Office in Moscow (Russia).

Catalogue creation and printing

CIS catalogue created in Russia. Russia and CIS markets printed in Ukraine.



2017 development in brief

- Local currency sales rose by 24% and Euro sales increased by 17%
- Registered actives increased by 17% to 1.1 million Oriflame Consultants
- The operating margin was 21.6% (19.1%)

Most markets performed well, with a solid performance in China, Indonesia, Turkey and Vietnam. The development in India was weaker, with measures taken to return to sustainable growth. A combination of solid leadership, online activity and a clear focus on Skin Care and Wellness sets and routines continued to drive the strong performance in the region.

Operations

Production

- NOIDA (INDIA) – Skin Care, Body Care/ Toiletries, Colour Cosmetics.
- KUNSHAN (CHINA) – Skin Care, Body Care/Toiletries, Colour Cosmetics.
- BEIJING (CHINA) – Wellness.
- RORKEE (INDIA) – Wellness.

Offices

Regional Offices in Jakarta (Indonesia), Shanghai (China), New Delhi (India) and Istanbul (Turkey).

Catalogue creation and printing

The regional catalogues are created and printed locally. Catalogue Development Centres in Shanghai, Jakarta, New Delhi and Istanbul.



Highlights in 2017



Financial highlights

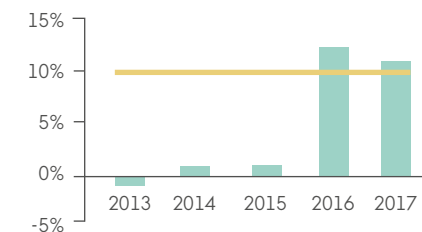
Oriflame reported a year of healthy Euro growth and double-digit local currency growth with strong profitability improvements. Skin Care and Wellness sets and routines served as significant drivers of growth and price mix development during the year. The performance in Asia & Turkey remained strong and CIS returned to growth – supported by sustained high productivity levels. Latin America recorded healthy growth and the development in Europe & Africa was mixed, with solid underlying growth in Africa and stable sales in Europe. 2017 was also a year of continued healthy cash flow and, at the end of the year, Oriflame was net debt free.

- Local currency sales rose by 11% and Euro sales increased by 9% to €1,363.1m (€1,249.4m).
- The operating margin was 11.7% (9.5%), impacted by -60 bps from currencies, and operating profit was €159.0m (€119.2m).
- Net profit totalled €92.6m (€66.7m) and diluted EPS was €1.62 (€1.18).
- Cash flow from operating activities amounted to €122.7m (€113.1m).

Long-term financial targets

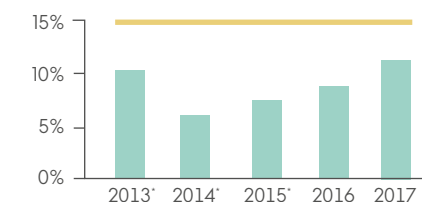
Local currency sales growth

Oriflame aims to achieve local currency sales growth of approximately 10% per annum.



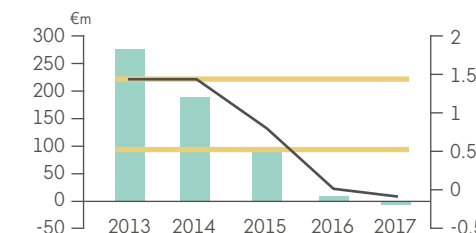
Operating margin

Oriflame aims to achieve an operating margin of 15%.



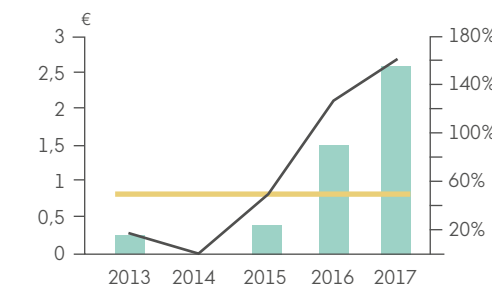
Net debt at hedged values/ EBITDA

Oriflame's target range is a net debt at hedged values/EBITDA ratio of 0.5 to 1.5.



Dividend policy

Absent changes in the company's operations or capital structure, Oriflame intends to distribute, over the long-term, at least 50% of the company's annual profit after tax as dividends.



Comment on the year's outcome

In 2017, local currency sales increased by 11%, making it the second consecutive year in which Oriflame exceeded its long-term growth target.

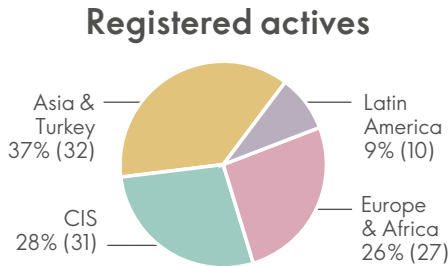
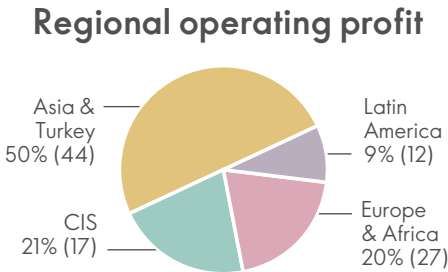
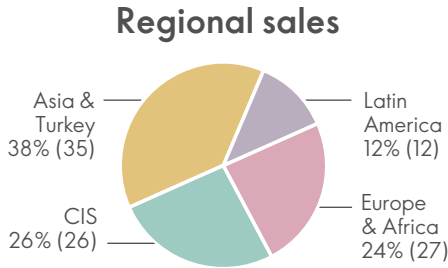
The operating margin increased during the year to 11.7%, up from 9.5 % the year before. The operating margin was negatively impacted by 60 bps from currencies.

Net interest-bearing debt at hedged values amounted to €4.3m net cash. The net debt at hedged values/EBITDA ratio was negative at 0.02, positioning Oriflame below its target range.

The Board of Directors will propose to the 2018 AGM a total dividend of €2.60 per share for 2017, given the company's strong financial position and net debt/EBITDA below the target range of 0.5 to 1.5, of which €1.60 (€1.00) per share is to be considered as ordinary and €1.00 (€0.50) to be considered as an extra dividend.

Key figures

€ million unless stated otherwise	2017	2016	Change
Sales	1,363.1	1,249.4	9%
Gross profit	994.6	882.9	13%
Gross margin, %	73.0	70.7	
EBITDA	191.8	148.2	29%
Operating profit	159.0	119.2	33%
Operating margin, %	11.7	9.5	
Net profit	92.6	66.7	39%
Earnings per share, diluted, €	1.62	1.18	37%
Cash flow from operating actives	122.7	113.1	8%
Net interest-bearing debt	23.5	82.3	-71%
Net debt at hedged values/EBITDA	-0.02	0.1	N/A
Registered actives, '000	3,067	3,006	2%



Sales in over
60
countries

€1.4b
in sales

Founded in
1967

6,230
full-time equivalent employees

3.1m
registered actives

11.7%
operating margin

Close to
95%
of all orders placed online

6
different product categories

1,000
products

Operational highlights

During 2017, important strategic initiatives were taken to enable sustainable growth and further margin expansion.

Continuing the online development

Focus areas throughout 2017 were continued development and implementation of the new e-commerce engine and further enhancements of the Oriflame app suite. The increase in mobile app usage continued with more than 700,000 active monthly users of the Oriflame app. Other activities during the year included the development of online payment options, consultant tools, improved personalisation and segmentation support.

Capturing manufacturing opportunities

Through its fully owned manufacturing entity, Cetes Cosmetics AG, Oriflame is taking various initiatives to achieve more efficient manufacturing and capacity utilisation. The main function of Cetes Cosmetics AG is to continue to support the organic growth of Oriflame while leveraging the manufacturing assets with external volumes. During the year, the capacity utilisation improved as a result of insourcing efforts and a favourable product mix.

Focusing on the income opportunity

Offering the Consultants a competitive income opportunity is key for Oriflame's future success. During the year, the decision was taken to make further investments in the company's success plan and other related consultant programmes in India. The enhanced programmes include higher bonuses and performance discounts, more attractive leader club programmes and a new car programme with a possibility to qualify as early as the Gold Director level.





Product highlights

During the year, the strategic product categories of Skin Care and Wellness increased their share of the full-year sales. The main initiatives within Skin Care included the launch of Nov-Age Time Restore as well as the China-specific relaunch of the mass brand Optimals, which primarily targets a younger audience interested in benefits other than anti-aging. The growth in Wellness was primarily driven by set sales.

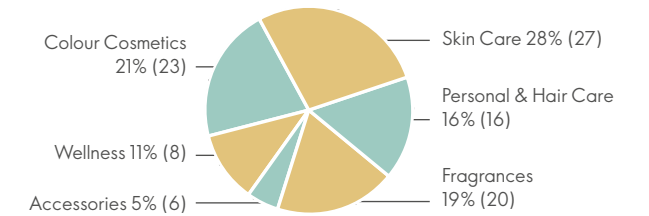
Several launches were carried out in Colour Cosmetics. The ONE No Compromise Mascara was introduced, using a wrap lash technology that only requires warm water to be removed. The limited edition Giordani Gold Bronzing Pearls was a popular gift for the Mother's Day and International Women's Day celebrations.

The performance in the Fragrance category was primarily driven by new products. Key launches during the year included Sublime Nature Tonka Bean, Venture Beyond and Amber Elixir Crystal.

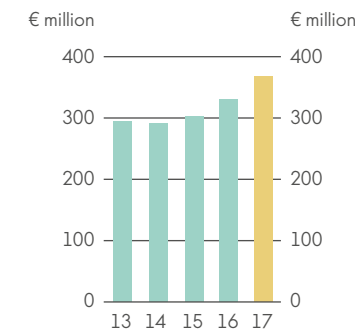
In Personal & Hair Care, Love Nature was launched with all rinse-off products being biodegradable, hair products silicone-free and exfoliants having natural origin beads.

Within Accessories, the electric foot file FeetUp Pedi Smooth enjoyed a successful launch.

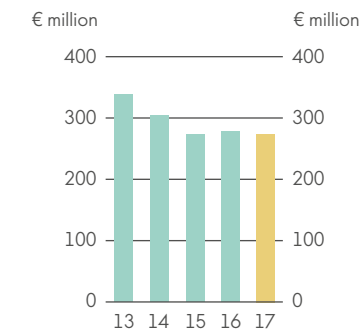
Sales by product category



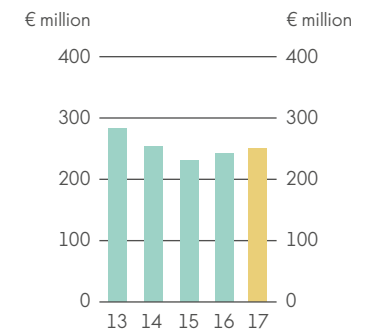
Skin Care



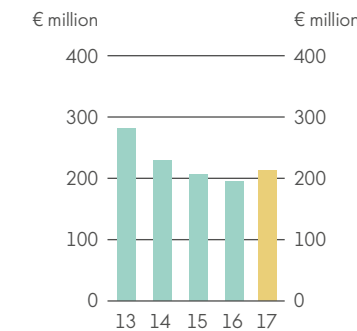
Colour Cosmetics



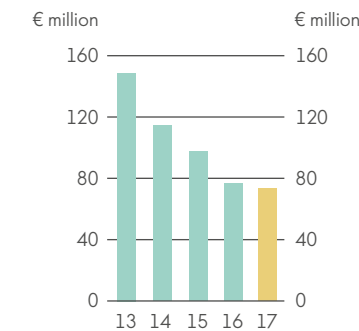
Fragrances



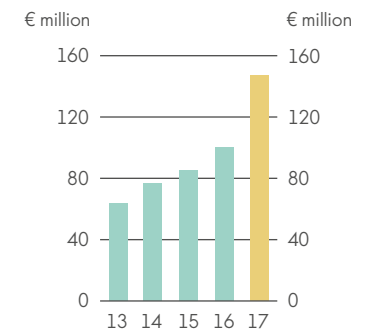
Personal & Hair Care



Accessories



Wellness



Sustainability highlights

Oriflame’s sustainability work continued to progress in 2017. Further examples of sustainability achievements are available on pages 46–47 in the Annual Report as well as in the Sustainability Report.

FOCUS AREAS	ACHIEVEMENTS 2017	COMMENTS
Successful people Create opportunities for people to improve their lives	€390m to Consultants through bonuses	Oriflame distributed almost €390m directly to its Consultants through bonuses and other forms of recognition.
Great products Develop responsible products that bring beauty and well-being	100% product safety evaluation	Oriflame has a safety evaluation process which applies to 100% of the company’s cosmetic and wellness products.
Thriving planet Drive environmental sustainability throughout the business	100% of palm oil certified	100% of the palm oil was certified by Mass Balance or covered by RSPO credits.





Company overview and strategic direction

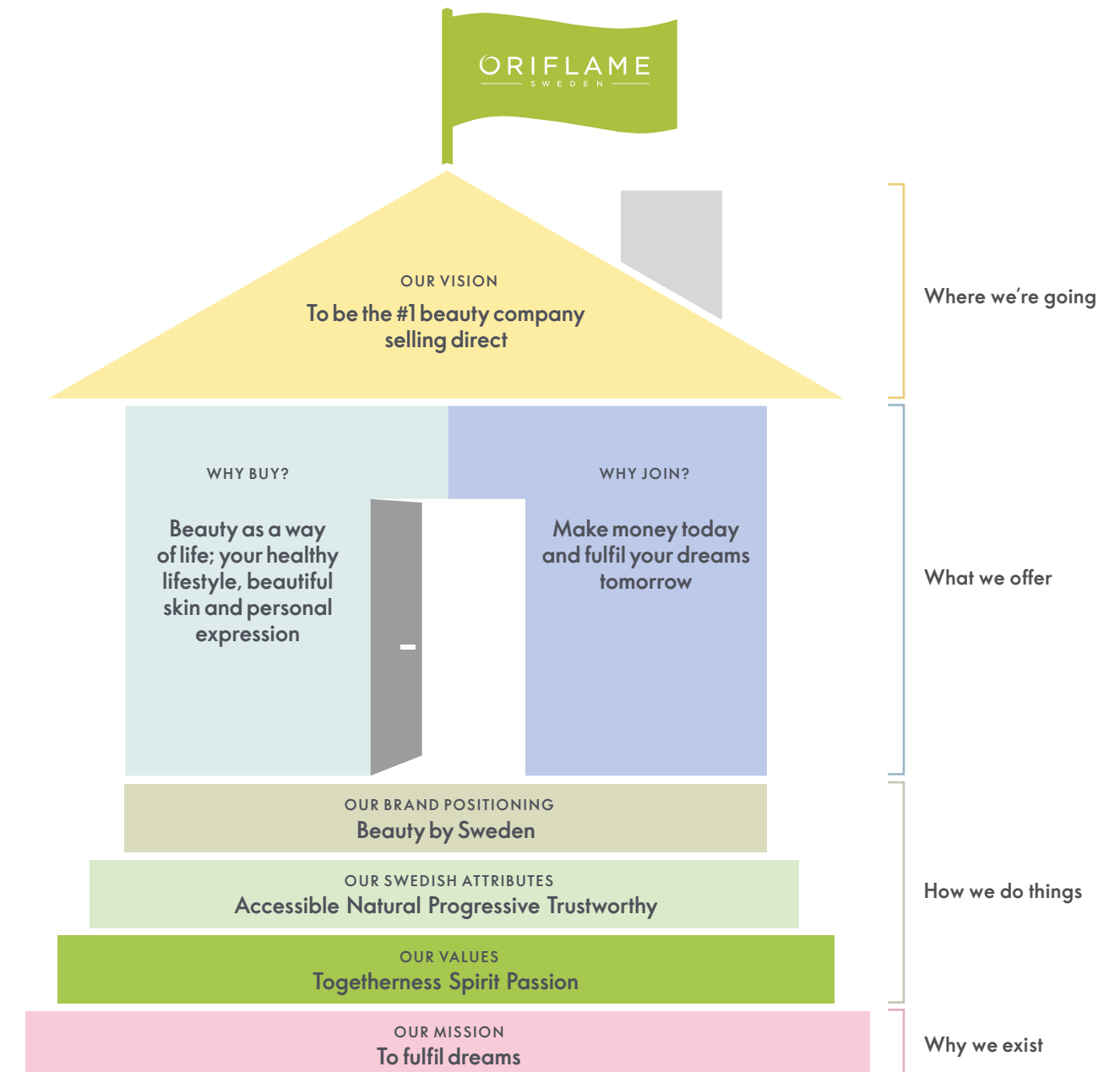


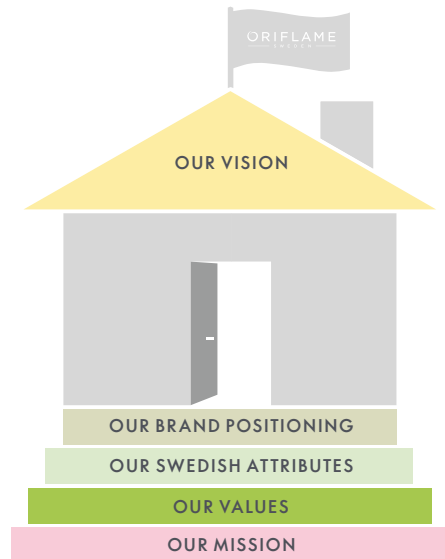
This is Oriflame

The main components of the Oriflame brand are displayed as the foundation of the Oriflame house. The fundamentals – mission, values and the Swedish attributes – define Oriflame as a company. They summarise the most important and long-lasting qualities of the Oriflame community, describing what has made Oriflame great in the past and what will carry the company successfully into the future.

Combined with the company fundamentals, the beauty and business offerings are what build the uniqueness of the Oriflame brand. This uniqueness is summarised in the Brand Positioning Statement: Beauty by Sweden.

The roof of the Oriflame house symbolises the company's vision – the long-term strategic direction in which the company is moving and the ultimate goal.





Our vision

To be the #1 beauty company selling direct

Our brand positioning

Beauty by Sweden

What makes Oriflame unique is the Swedish approach to offering beauty and business to people around the world.

Our Swedish attributes

Accessible, Natural, Progressive, Trustworthy

Oriflame is proud of its Swedish heritage, as it plays a vital role in what makes the company unique and has helped to define how the company operates. Sweden is a country with many positive associations and, as the only Swedish brand in the global beauty arena selling direct, Oriflame holds a unique position.

Accessible, Natural, Progressive and Trustworthy are Oriflame's Swedish attributes exhibited through the company's offering and general approach to business.

Our values

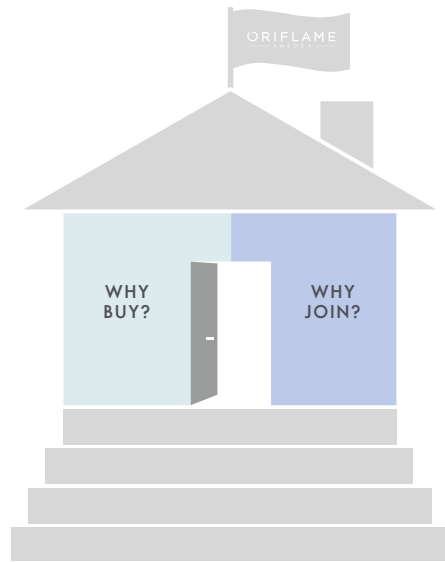
Togetherness, Spirit, Passion

The Oriflame community is united by the shared values of Togetherness, Spirit and Passion. These three words have guided the company for a long time and will continue to guide Oriflame in the future. The values are infused into everything the company does and living by these values guides the culture and the decisions made.

Our mission

To fulfil dreams





The beauty offering

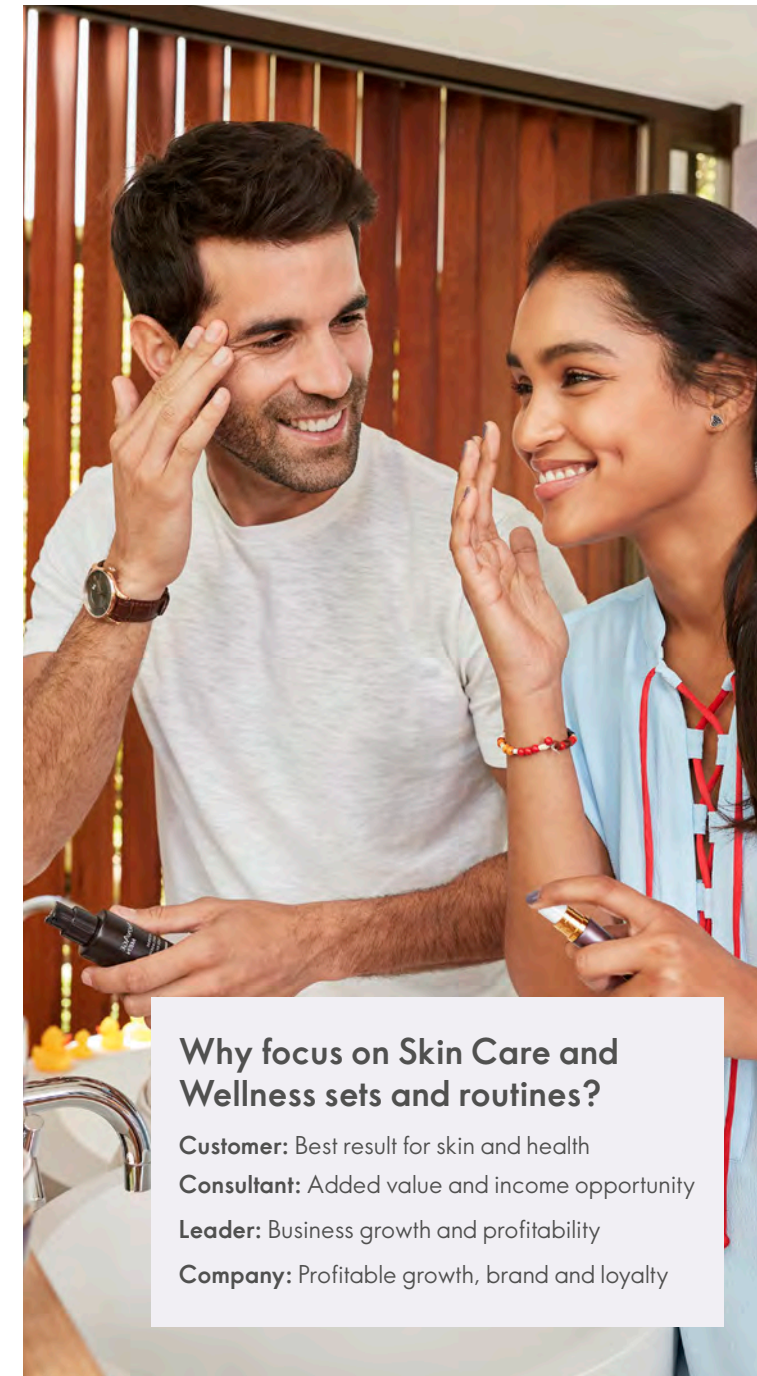
Beauty as a way of life; your healthy lifestyle, beautiful skin and personal expression

Oriflame offers a wide and dynamic assortment of high-quality products that combine the best of nature with advanced Swedish science, and use safe eco-ethically screened ingredients. The portfolio spans six complementary categories: Skin Care, Colour Cosmetics, Fragrance, Personal & Hair Care, Accessories and Wellness.

The beauty offering is developed with the Consultants in mind, supporting the Oriflame recommendation model and thereby driving activity and retention. The products should be

easy to buy and recommend to others because of their high quality, great product stories and unique product benefits – providing a compelling and relevant proposition. All products serve a specific purpose in the product portfolio and across various sales tools and methods. Some products may play the role of door-openers and activity-drivers and are well suited for the catalogue. Some may be designed to create a buzz that attracts customers via social media, while others are intended to strengthen the brand and the product culture.

Skin Care and Wellness are strategic product categories that drive sales and profitability, create brand value and loyalty, and increase productivity and income opportunities for the Consultants. These are also categories that customers often need more help navigating and where the Consultants can add value by helping the customers to identify the products that meet their individual needs. Skin Care and Wellness daily routines are a key element in the beauty offering, clearly reflecting Oriflame's belief in the synergy effect of combining products to obtain the best individual results.



Why focus on Skin Care and Wellness sets and routines?

Customer: Best result for skin and health

Consultant: Added value and income opportunity

Leader: Business growth and profitability

Company: Profitable growth, brand and loyalty

The business opportunity

Make money today and fulfil your dreams tomorrow

Since the very beginning, Oriflame has made entrepreneurship accessible. With an attractive joining fee and no need to invest in product inventory, Consultants have the opportunity to start using and selling the Oriflame products and making money from day one. Oriflame acknowledges the importance of offering an attractive earnings proposition that is trustworthy, simple and easy to understand. This is supported by an increased focus on selling more per customer contact by presenting daily routines offered in sets at good value, as well as an integrated suite of attractive and modern business tools that help the Consultants to manage and develop their business.

Oriflame distinguishes itself by taking a human-touch approach in all of its interactions with Consultants. Oriflame aspires to be known as a company in which Consultants feel seen, appreciated and recognised. Personal and professional development is another important part of the consultant value proposition. Oriflame aims to provide the Consultants with a rewarding journey and delivers on this by offering world-class tools, training, conferences and events, but equally important are the daily activities and interactions within the networks.

Driving growth and profitability

Focus on seven growth drivers

Oriflame has identified seven growth drivers that the company believes are crucial to focus on to deliver on its strategy. The growth drivers comprise the most important strategic areas where Oriflame sees the opportunity to develop a significant competitive edge and engine of growth, as well as areas where there is scope for further development to drive growth and profitability in line with the strategic direction.



Product Culture and Hero Sets

Skin Care and Wellness are strategic product categories that drive sales and profitability, create brand value and loyalty, and increase productivity and income opportunities for the Consultants.



SARPIO

SARPIO (Sales and Recruitment Processess in Oriflame) is a unique differentiator for Oriflame, providing a comprehensive methodology for how to drive systematic recruitment and leadership development.



Success Plan

The Success Plan is Oriflame's ultimate tool for rewarding the Consultants. Offering a competitive income opportunity is key for the company's future success.



Conferences

Conferences are one of Oriflame's key incentives when it comes to building the Oriflame community and creating a sense of social belonging as well as promoting recognition, motivation and performance among Consultants, primarily leaders.



Digital

As part of the global digital transformation, Oriflame's business model is evolving and now largely comprises an online social selling model, with close to 95% of all orders placed online.



Customer Service

Oriflame's advantages lie in its relationships with its Consultants. The company is dedicated to delivering consistent, personalised and positive experiences through all touch points.



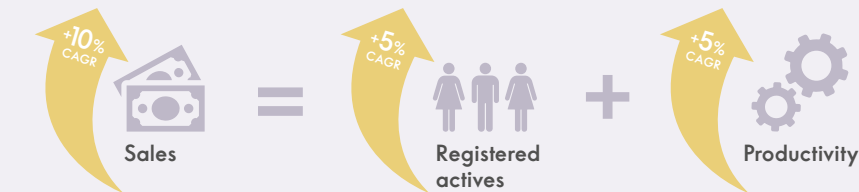
Brand

A comprehensive brand focus is necessary to ensure that all brand touchpoints build Oriflame's brand position.

Growth strategies

Further penetration of existing markets

Oriflame will focus on further penetration of the markets in which it currently operates, with emphasis on its six strategic markets: Mexico, Russia, Turkey, India, China and Indonesia. Oriflame aims to achieve local currency sales growth of approximately 10% per annum, with approximately 5% being driven by growth in the number of registered actives and 5% by productivity growth.



Entering new markets

Over time, Oriflame will expand into new geographical markets, primarily through organic expansion. During the first years after a new market entry, there is normally only limited growth.

Margin expansion strategies

Price/mix

The main part of Oriflame's operations are conducted in emerging markets and the company is used to mitigating currency movements. Oriflame's strategy is to offset devaluations primarily through price increases. Furthermore, Oriflame aims to continue to drive a positive mix effect across the business. The mix will be a combination of geographical and product mix, mainly driven by the focus on Skin Care and Wellness.

Efficiency measures

Oriflame aims to further improve the capacity utilisation in manufacturing through various supply-chain efficiency measures:

1. Insourcing external volumes
2. Adding new technologies
3. Reaching new target customer groups in other distribution channels and geographies

Leverage on assets and overhead costs

Through a combination of organic sales growth and cost control, Oriflame aims to achieve further leverage on its assets and overhead costs.



Oriflame's 50th Anniversary Cruise

Conferences are one of Oriflame's key incentives when it comes to building the Oriflame community and creating a sense of social belonging as well as promoting recognition, motivation and performance among Consultants, primarily leaders. The international conferences serve as excellent occasions to share examples of best practice from successful leaders across various regions and provide an opportunity to create an increased understanding of the Oriflame brand and culture. In a digital world, Oriflame recognises that meetings between people are becoming increasingly important and that digitalisation also enables lifestyle experiences, such as travelling and attending conferences, to be instantly shared with a wide range of people.

During 2017, Oriflame held its largest Global Gold conference ever. Close to 6,000 participants in the Global 50th Anniversary Cruise sailed together in the Mediterranean. As part of the conference, the Global Anniversary Rally was held at the Olympic Stadium in Athens with speeches by amongst others Oriflame's co-founders, Jonas and Robert af Jochnick, as well as product presentations and recognition of leaders for reaching new titles.



Social selling of today

The basis for Oriflame has always been social selling. As part of the global digital transformation, Oriflame's business model is evolving and now largely comprises an online model.

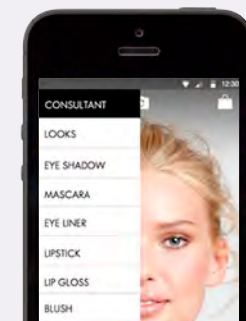
Oriflame's digital strategy has a consultant-centric approach, which means that the initiatives are shaped from the perspective of how the Consultants are empowered to sell, recruit and manage their business using the latest digital tools. This also means that Oriflame aims to reach the online beauty shoppers segment mainly through its Consultants, thereby leveraging the power of personal recommendation online. This can, for example, take the form of a Consultant sharing inspiring and insightful beauty content with their friends through social media that is connected to a relevant and attractive product. The product can then either be delivered personally by the Consultant or shipped directly to the customer by Oriflame.

The Consultants are compensated for the actual sales volumes generated by them and their network. Consultants can use personal links when recommending Oriflame on digital platforms. Any lead that uses such a link as a point of contact with Oriflame will be attributed to the appropriate Consultant when registering or making a purchase. Oriflame never bypasses the Consultants and in cases of drop-in registrations where no Consultant can be identified, a fair share allocation algorithm is used to ensure that the commission is still distributed to the Consultants.

As the digital transformation continues, Oriflame is focusing on the needs of tomorrow, developing new tools and new ways of thinking. In order to better understand the behaviour of the Consultants and thus be able to communicate in a relevant way, Oriflame is also pursuing analytical segmentation and marketing automation.

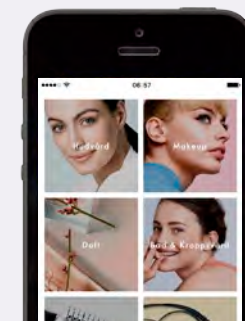
- 95% of all orders placed online
- 40% of orders on mobile devices
- 60% mobile traffic
- 9 million Facebook fans

Oriflame's primary objective is to provide Consultants with adequate tools to sell, recruit and manage their business. In an increasingly mobile environment, the focus is shifting towards mobile applications.



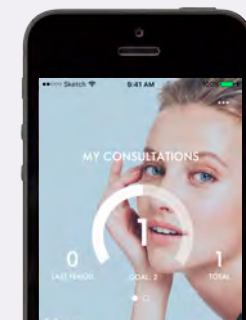
Makeup Wizard

Showcases Oriflame's Colour Cosmetic products in an innovative way.



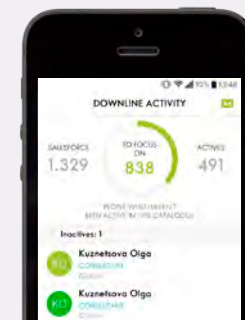
The Oriflame app

Focuses on products, offers and managing orders.



The Oriflame SkinExpert app

Supports consultative selling of Oriflame's Skin Care routines.



The Oriflame Business app

Focuses on managing the business, growing and developing the network.

The utilisation of Oriflame mobile applications increased sharply during the year.

The Oriflame app



Active monthly users (thousands)

The Oriflame Business app



Active monthly users (thousands)



Sustainability

As an inseparable part of its future success, Oriflame is integrating sustainability throughout its operational framework and business strategies. Oriflame's comprehensive sustainability strategy constitutes of a broad set of commitments covering product development, social issues and environmentally focused targets. The strategy is based on a materiality assessment and focuses on areas with the greatest relevance for Oriflame, and where initiatives can have the largest impact. For each of the three key areas, Oriflame has set a range of commitments and time-bound targets designed to improve performance and move the company closer to its long-term vision of becoming sustainable.

1. Successful people

A cornerstone in Oriflame's operations is, and has always been, to create opportunities to improve people's lives – for Consultants, employees and suppliers, but also in a broader sense through its community involvement and support for social causes.

2. Great products

Continuously improving the sustainability profile of product ranges is part of Oriflame's strategy to bring beauty and well-being in a responsible way. Oriflame's goal is to continue developing products that meet the highest social, ethical and environmental standards.

3. Thriving planet

Driving environmental sustainability, not only across Oriflame's own activities but throughout the value chain, is a key long-term goal. Focus areas include the sourcing of renewable and sustainable materials whenever possible, cutting emissions to air and water, and reducing the amount of waste produced.

Sustainability has a permanent place on the management agenda, where targets and commitments are regularly followed up and reviewed. While progress is being made, Oriflame recognises that this is a continuous journey – there is still much more to be done and new challenges lie ahead.



Examples of sustainability achievements

Oriflame's sustainability work continued to progress in 2017.

People

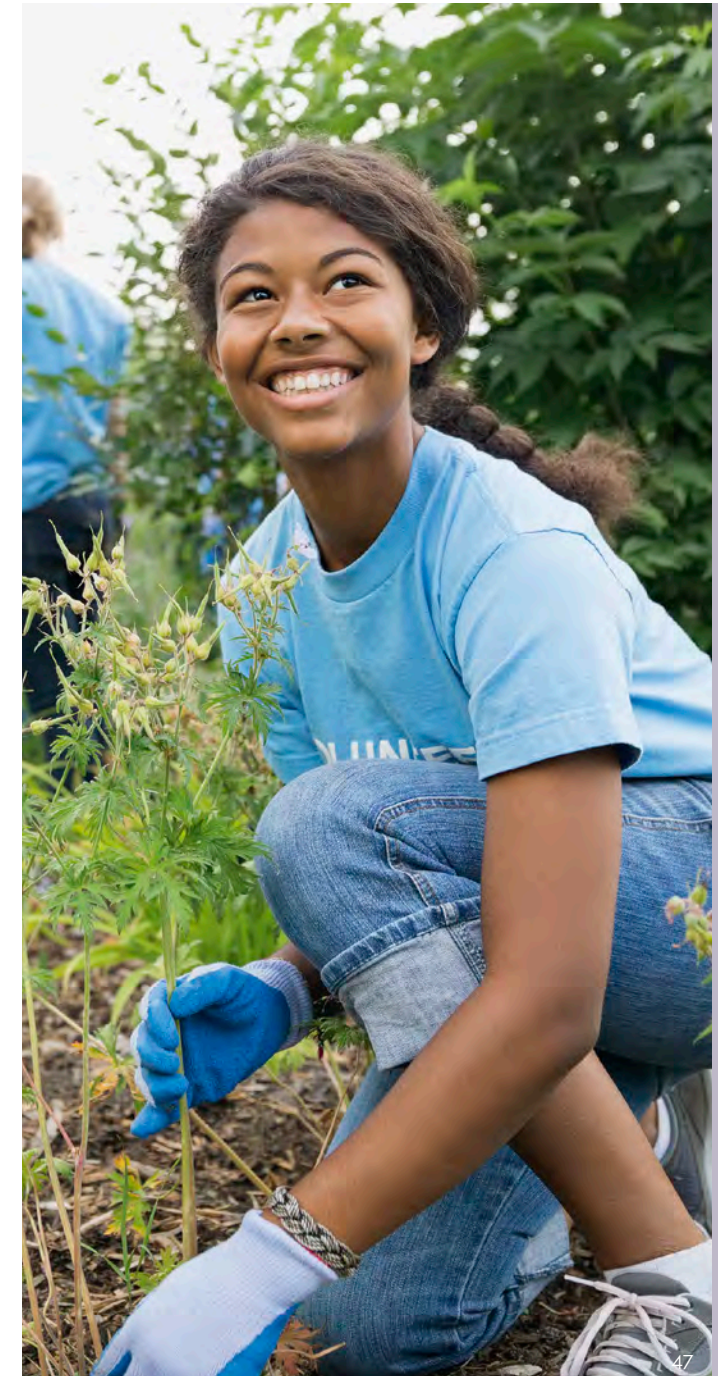
- Oriflame distributed almost €390m (€350m) directly to its Consultants during 2017 through bonuses and other forms of recognition. This is in addition to the approximately 20% earnings Consultants can earn by selling products.
- Beyond income, Oriflame Consultants also benefit from access to coaching and training. In 2017, approximately 300,000 Consultants participated in Oriflame's Business and Beauty Academy training programmes, learning business skills as well as product-specific information through e-learning courses and video sessions.
- Through sales of the fragrance Tenderly Promise, Oriflame continued to support the World Childhood Foundation. During 2017, the goal to raise €1m over a three-year period was achieved.
- The five-step supplier evaluation programme was further rolled out to global suppliers, representing 97% of Oriflame's finished goods suppliers. For high-risk suppliers, Oriflame conducted sustainability audits during the year covering approximately 20% of the global direct and second tier suppliers.
- Oriflame has a good gender balance in its overall workforce with slightly more women (60%) than men (40%), and more than 75 nationalities represented. Of its top 120 managers, women currently represent 43%. Oriflame continues to work with diversity and gender balance through all levels of the organisation.

Products

- Oriflame stringently reviews and profiles all raw materials for their sustainability attributes, including naturalness, transparent sourcing, and social and environmental impact. The safety evaluation process applies to 100% of the company's cosmetic and wellness products.
- In 2017, Oriflame launched its new Love Nature rinse-off range, with biodegradable formulations, in an effort to further strengthen its water stewardship. Additionally, the formulations contained natural extracts and natural origin scrub particles. Oriflame carried out independent testing to ensure that all products passed the OECD testing protocol for biodegradability.
- Oriflame continued to use only natural origin scrubs – such as almond shell, fruit seeds and silica – in all its exfoliating products. The company no longer manufactures older products with plastic microbeads or uses plastic glitter in its rinse-off products.
- As in previous years, no products were launched during 2017 that breached the company's commitment to respect animal welfare by never using cosmetic ingredients derived from dead animals or which cause harm or suffering to animals.
- During 2017, Oriflame became a member of the Responsible Mica Initiative, a cross-sector association which aims to eradicate child labour and unacceptable working conditions in the Indian mica supply chain by joining forces across industries and civil society organisations.

Planet

- The company continued to take steps to support the production and use of sustainable palm oil. In 2017, over 8% of palm oil used in finished goods was certified by Mass Balance. The remainder was covered by RSPO credits. In the WWF palm oil scorecard for 2016, Oriflame scored 9/9, among the best in the industry.
- Paper and board remains a key focus area. In 2017, 97% of Oriflame's catalogue paper came from credibly certified sources and 99% of display packaging cartons and leaflets were sourced from FSC™ certified forests.
- Oriflame achieved a score of B Management for timber and palm oil in the CDP's forests programme, a recognition of Oriflame's actions to responsibly source forest-based products.
- In the CDP 2017 climate change evaluation, Oriflame was awarded a score B-, reflecting the company's actions to reduce carbon emissions and mitigate the business risks of climate change.
- Waste is an area of significant impact for Oriflame's business. In 2017, approximately 99% of all waste produced at Oriflame's factories avoided ending up in landfill. Since 2015, the waste produced in factories per unit has decreased by 17%. In absolute terms this represents a decrease of 10%.
- Water consumption per unit in Oriflame's factories has decreased by 12% since 2015, while absolute consumption has increased by 13%.



Value chain

At Oriflame, the main focus throughout the value chain is on driving efficiencies and delivering on the promises to the Consultants. Oriflame believes in an adaptable and sustainable supply chain that creates value for the Consultants, factories, employees and communities. This is achieved through enhanced processes and planning platforms, reduced lead times, and an optimised logistics platform.



Research and development

Science is a critical driving force behind Oriflame's evolution, encompassing pioneering research, formulation development, global regulatory and performance testing at its global R&D centres in Dublin and Stockholm. Oriflame employs over 100 scientists with multi-disciplinary expertise, including chemistry, biotechnology, pharmacology, skin biology, and nutraceuticals.

Product safety is of paramount importance, and Oriflame goes beyond strict European safety standards, placing further restrictions on ingredients to protect customer health. Oriflame uses independent laboratories to test formulations on healthy human volunteers, ensuring products do not cause irritation and are safe for use.

Significant emphasis is placed on the raw material portfolio to ensure all cosmetic ingredients are sourced, extracted and used in a way that is respectful of nature. Ingredients from endangered sources are never used, and Oriflame has committed to delivering a future portfolio of Halal-certified products.

In 2017, Oriflame was represented at prestigious industry events and published numerous scientific papers in respected industry publications.



Product development and skin research

Today, Oriflame offers approximately 1,000 products, with newly introduced products accounting for about one third of this amount each year. The focus of Oriflame's R&D is on Skin Care and Wellness. Oriflame builds global skin expertise and strengthens product performance, by capitalising on ethnic skin research data and by utilising state-of-the-art instrumentation, including specialised 3D skin-imaging equipment. The company also collaborates with industry partners to conduct clinical studies in Asia and Europe ensuring relevant benefits for customers.

During 2017, the company's digital transformation was boosted by NETWORK PHARMACOGNOSY™, a unique digital research platform to accelerate the discovery of natural active ingredients. Based on this research, a patent was filed for a natural, anti-wrinkle active ingredient. A global patent is pending on a new generation of plant stem cell extracts with strong antioxidant potential. Oriflame also partnered with a Swedish microbiome market leader, and continued to strengthen its expertise in plant stem cell technologies.



Sourcing and manufacturing

Oriflame has six factories located in China, India, Poland and Russia, two of which are LEED® certified. Roughly 55% of the product volumes are manufactured in-house, up from around 50% in 2016. Through its fully owned manufacturing entity, Cetes Cosmetics AG, Oriflame is taking various initiatives to achieve more efficient manufacturing and capacity utilisation. This includes insourcing external volumes, adding new technologies and leveraging the manufacturing assets with external volumes. The production set-up is based on a centralised supply chain network, automated pick and pack operations, and regional hubs.

Oriflame's quality assurance team works with both in-house manufacturing operations and subcontracted suppliers to achieve consistent compliance with the high quality, safety, ethical and environmental standards set by the company. 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 and the Global Supplier Evaluation programme is a way to improve sustainability across the value chain.



Go-to-market

Oriflame has around 6,200 full-time equivalent employees around the world with the same mission: to give support to the Consultants and their businesses. Unlike retail companies, Oriflame spends a limited amount on traditional marketing as its key marketing channel is the company's Consultants.

The sales teams within Oriflame work closely with the Consultants to develop efficient sales tools for the needs of tomorrow. The Oriflame catalogue is still an important sales tool, both the offline and online version, and the transition towards other online tools and apps is reaching record levels. By providing customers with the ultimate shopping experience at their chosen time and place, Oriflame's sales tools support the business opportunity of the Consultants.

The planning and preparation of various marketing activities are gradually becoming more integrated between the regions and global functions, while each country is responsible for adaptation and implementation in its respective market.



Consultants and customers

Oriflame's business model creates value by offering people around the world the chance to improve their lives: enabling entrepreneurial opportunities for Oriflame Consultants and a unique shopping experience for customers. In 2017, Oriflame had approximately three million registered actives in over 60 countries, generating annual sales of around €1.4 billion.

Anyone can become an Oriflame Consultant, as long as they live in one of Oriflame's markets around the world. They can choose either to save money on the products they purchase for themselves and their families or to earn a little extra money through part-time income or maintaining a full-time career. In addition to the approximately 20% earnings Consultants can earn by selling products, Oriflame distributed around €390m in bonuses and other forms of recognition in 2017.

The majority of the Oriflame Consultants are women who live in developing countries where this kind of income can make a big difference to their lives – increasing their purchasing power and giving them more independence. Besides improving people's lives, the company uses the power of the networks to facilitate social and environmental progress.

The Oriflame community: three million registered actives



- 60% save on purchases for themselves and their family
- 20% earn from personal selling
- 19% earn from personal selling and group sales
- 1% are key business builders who mainly earn from group sales

The direct selling industry

Benefits of Direct selling – according to World Federation of Direct Selling Associations

Direct selling offers important benefits to people who want an opportunity to earn income and build a business of their own, to consumers as an alternative to retail stores, and a cost effective way for business to bring products to market. Consumers benefit from direct selling because of the convenience and service it provides, including personal demonstration and explanation of products, home delivery, and generous satisfaction guarantees.

Direct selling offers an alternative to traditional employment for those wanting a flexible opportunity to supplement household income, or whose circumstances don't allow regular employment. Direct selling opportunities can develop into a fulfilling career for those who achieve success and choose to pursue their independent direct selling business on a full time basis. Start-up costs in direct selling are typically low. Usually, a modestly priced sales kit is all that's needed to get started, and there is little or no inventory or other cash commitment to begin. This stands in contrast to other businesses with the cost and risk associated with larger outlays.

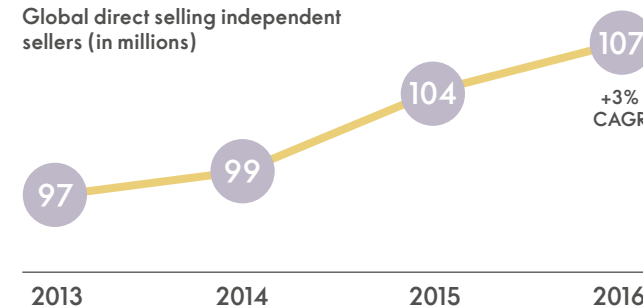
Direct selling offers a distribution channel for businesses with innovative or distinctive products that for cost or other reasons are not suited to other retailing. External socio-economic impact studies for various markets show that direct selling is a positive impact to the economies and people where direct selling companies operate.

Source: WFDSA, <https://wfdsa.org/>

Direct selling as a traditional sales method may seem best suited to emerging markets without a developed retail sector. Lately, however, new trends in customer behaviour have been putting traditional retail to the test, including growing demand for home delivery, personal shoppers and, in particular, online shopping. As competition for customers' attention and confidence increases, direct selling offers a unique way of gaining loyal customers. Today, key sources of customer information include word of mouth, dissemination in social media, blogs, fan clubs and informal gatherings with friends, particularly for purchasing beauty products. Many customers 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.

Direct selling continues to attract people globally

Global direct selling independent
sellers (in millions)



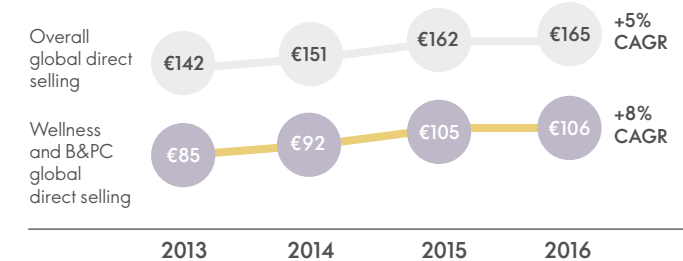
Source: WFDSA, June 2017 edition (for 2013-2016).

Oriflame has the right product focus – with Beauty & Personal Care and Wellness accounting for nearly two thirds of the global direct selling industry. These product categories have outgrown the overall direct selling industry over the last couple of years.

Oriflame is well positioned, equipped with a geographic footprint and a product offering presenting attractive growth opportunities. In the markets where Oriflame operates, Euromonitor expects Beauty & Personal Care and Wellness to grow at a CAGR of 5% and 7%, respectively, between 2016 and 2021.

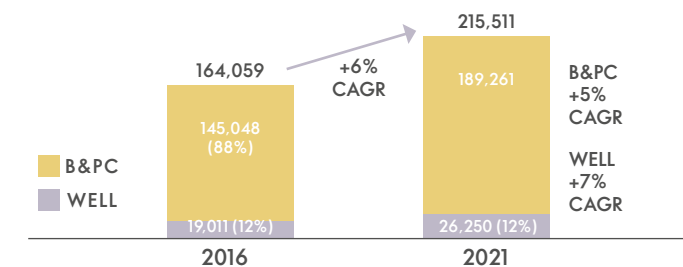
Oriflame has a strong presence in several of its six strategic markets, with the markets presenting further growth opportunities.

Global direct selling – Overall, Beauty & Personal Care and Wellness sales (€ billion, 2016 constant rate)



Source: WFDSA, June 2017 edition (for 2013-2016) in USD – translated to EUR using Oriflame's 2016 average rate.

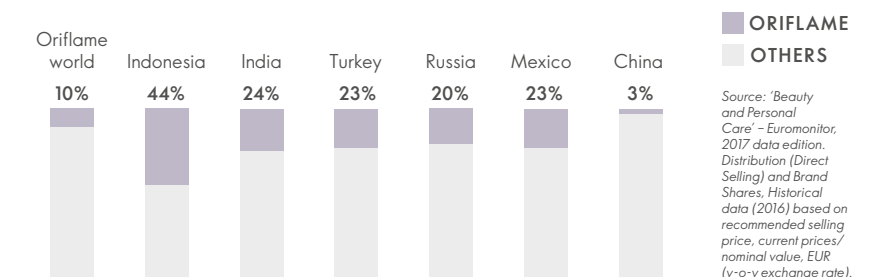
Total of the markets where Oriflame operates – Wellness and Beauty & Personal Care absolute growth and contribution (€m, 2016-2021)



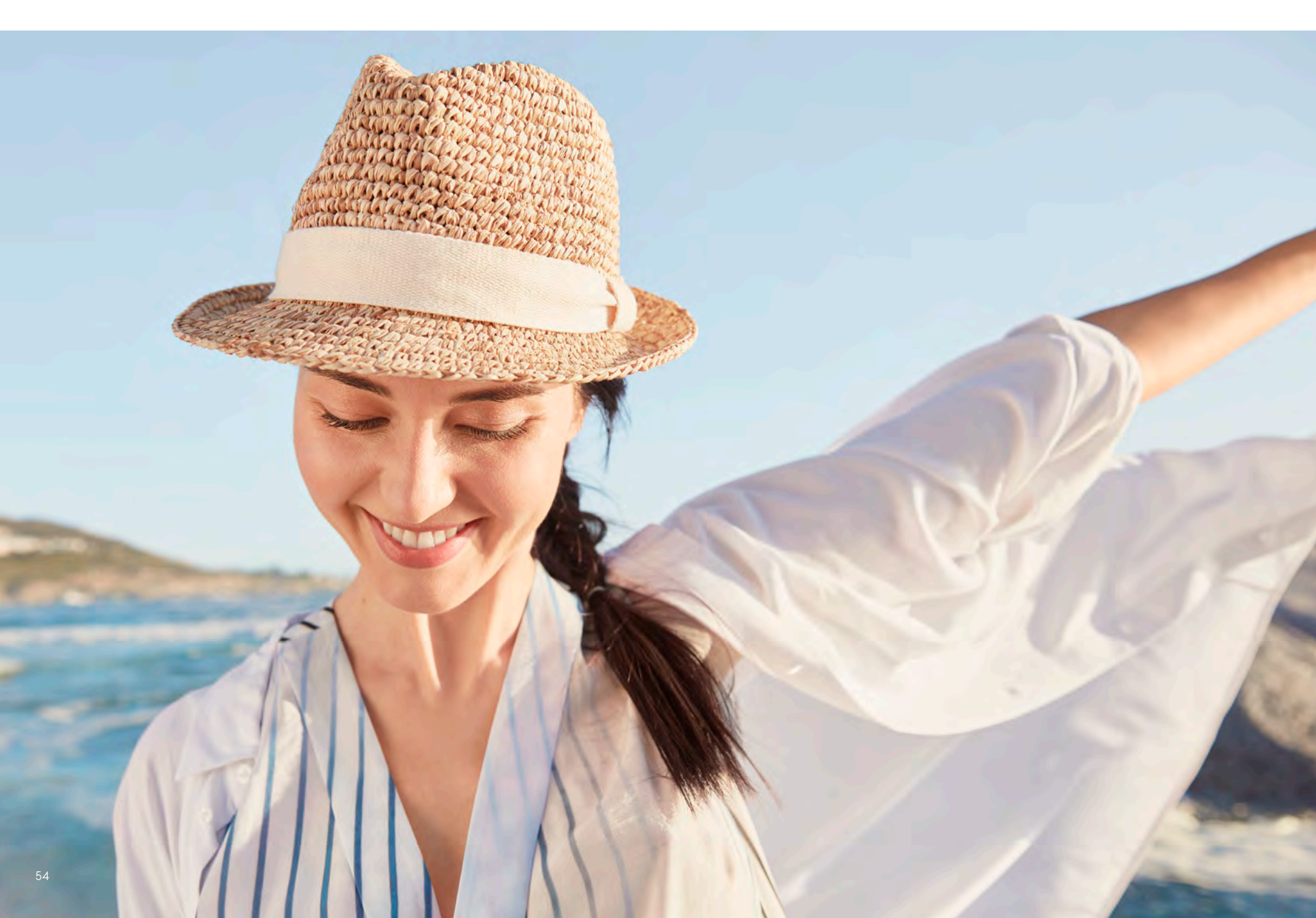
Note: Overall Beauty & Personal Care and Wellness, based on Oriflame's markets and Wellness segments where Oriflame is present.

Source: 'Beauty and Personal Care' – Euromonitor, 2017 data edition, 'Wellness' – Euromonitor, 2017 data edition from Consumer Health. Forecast data (2017-2021) based on recommended selling price, current prices/ nominal value in local currency and translated to EUR using Oriflame's exchange rates forecast.

Beauty & Personal Care direct selling market share (% , 2016)



Source: 'Beauty and Personal Care' – Euromonitor, 2017 data edition. Distribution (Direct Selling) and Brand Shares, Historical data (2016) based on recommended selling price, current prices/ nominal value, EUR (y-o-y exchange rate).



Financials

Key figures

THREE-YEAR RECORD

€ million unless stated otherwise	2017	2016	2015 ¹⁾
Sales	1,363.1	1,249.4	1,211.6
Gross profit	994.6	882.9	838.3
Gross margin, %	73.0	70.7	69.2
EBITDA	191.8	148.2	117.4
Operating profit	159.0	119.2	90.6
Operating margin, %	11.7	9.5	7.5
Adjusted operating profit	159.0	119.2	100.2
Adjusted operating margin, %	11.7	9.5	8.3
Net profit	92.6	66.7	34.2
Return on capital employed, ROCE, %	34.7	26.7	20.7
Return on operating capital, %	57.7	38.0	5.4
Cash flow from operating activities	122.7	113.1	122.2
Cash flow from operating activities, per share, €	2.2	2.0	2.2
Equity/assets ratio, %	30.3	28.4	21.2
Net interest-bearing debt	23.5	82.3	171.6
Net interest-bearing debt at hedged values/EBITDA	(0.02)	0.1	0.8
Interest cover	11.5	6.6	4.8
Adjusted Diluted EPS, €	1.62	1.18	0.79 ²⁾
Registered actives, '000	3,067	3,006	3,246
Sales per registered actives, €	439.9	411.9	370.3
Average number of full-time equivalent employees	6,230	6,233	6,535

1) Adjusted for non-recurring items of €9.6m.

2) Adjusted for additional non-recurring tax items of (€0.5m).

DEFINITIONS

Operating capital

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

Return on operating capital

Operating profit divided by average operating capital.

Capital employed

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

Return on capital employed

Operating profit plus interest income divided by average capital employed.

Net interest-bearing debt

Interest-bearing debt excluding front fees less cash and cash equivalents.

Interest cover

Adjusted operating profit plus interest income divided by interest expenses and charges.

Net interest-bearing debt to EBITDA

Net interest-bearing debt divided by EBITDA.

EBITDA

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

QUARTERLY FIGURES

Sales, €m	2016				2017			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Latin America	29.4	38.5	40.9	39.8	35.3	40.9	40.4	41.0
Europe & Africa	82.4	81.2	70.4	95.3	81.3	80.3	70.7	92.4
CIS	86.6	78.0	67.2	93.9	99.5	92.9	69.9	94.5
Asia & Turkey	103.9	109.5	97.5	123.3	118.2	130.3	111.7	150.0
Manufacturing	2.1	0.4	0.7	0.6	4.5	1.4	0.8	0.3
Other	1.4	2.0	2.2	2.2	1.3	1.8	1.8	1.9
Oriflame	305.8	309.6	278.9	355.1	340.1	347.6	295.3	380.1

Operating Profit, €m	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Latin America	2.6	6.1	7.2	5.8	3.3	6.0	5.9	5.5
Europe & Africa	11.8	12.4	8.9	16.8	10.4	10.4	9.2	15.2
CIS	7.2	5.2	5.5	14.0	11.1	9.7	9.9	14.6
Asia & Turkey	14.7	23.1	17.7	27.6	21.1	28.0	22.1	39.1
Manufacturing	3.3	1.6	2.5	1.6	4.9	4.4	1.3	(1.5)
Other	(18.5)	(17.6)	(16.6)	(23.8)	(21.0)	(18.0)	(15.9)	(16.6)
Oriflame	21.1	30.8	25.2	42.0	29.8	40.5	32.5	56.3

Registered actives, '000	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Latin America	243	286	314	288	266	284	299	280
Europe & Africa	768	740	655	812	802	734	674	783
CIS	1,133	913	784	926	889	794	698	859
Asia & Turkey	961	923	895	980	1,034	994	975	1,145
Oriflame	3,105	2,862	2,648	3,006	2,991	2,806	2,646	3,067

Oriflame as an investment

SEVEN REASONS TO INVEST

1

Sustainability is an inseparable part of the strategy

Sustainability has been an inseparable part of Oriflame's operational framework and business strategies since the beginning. The focus of Oriflame's sustainability strategy is to create opportunities to improve people's lives, to bring beauty and well-being through responsible products and to drive environmental sustainability throughout the value chain. Oriflame has set a range of commitments and time-bound targets designed to improve performance and move the company closer to its long-term vision of becoming sustainable.



2

Business model well suited to modern social networking

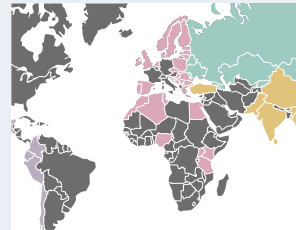
Oriflame has a direct selling business model that is well suited to the modern network society – leveraging the power of personal recommendation in the digital environment. With the global retail market in rapid transformation and many markets experiencing decreasing traffic in physical stores, Oriflame has a strong position since the company does not operate retail stores. Instead, it operates through 3.1 million independent Consultants who recommend and sell its products directly to friends, family and followers using digital tools.



3

Balanced geographic footprint with growth potential

Oriflame has a global business footprint with a presence in markets with high growth potential. Oriflame currently operates in over 60 countries, which are primarily markets where consumer spending on beauty products per capita is low but growing in combination with strong growth in GDP per capita. The geographical mix also provides a balanced risk elimination between more mature and emerging markets.



4

Strong growth orientation with a clear strategic direction

Oriflame has a clear strategy with a strong growth orientation. The company sees significant growth opportunities in the markets where it operates, and continuously evaluates its capacity to establish itself in new markets. Oriflame is committed to its long-term financial targets and will continue to deliver on its growth strategy.



5

Focus on continued margin expansion

Oriflame's profitability has improved over the past few years. The company will continue to drive its price/mix, efficiency measures and sales leverage across its business to reach its long-term financial target of an operating margin of 15%.

- Price/mix
- Efficiency measures
- Sales leverage

6

Asset-light company structure, strong cash flow generation and dividend

Oriflame has an asset-light company structure that allows for low and stable maintenance capital expenditures. Combined with effective management of working capital, this results in strong cash flow generation and thereby allows for dividends in accordance with the goal to distribute at least 50% of the annual profit after tax.



7

50-year track record, strong corporate culture and long-term ownership

Oriflame was founded by Jonas and Robert af Jochnick and a former partner with a clear mission. Today, 50 years later, the af Jochnick family is still the largest owner of Oriflame with close to 30% of the share capital and voting rights. One of the company's strategic differentiators, and a key to tackling macroeconomic challenges along the way, is the strong entrepreneurial corporate culture that is a natural part of the DNA of the company.



The Oriflame share

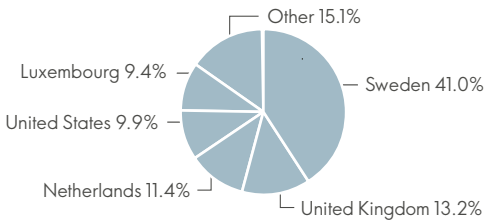
On the 23 June 2015, Oriflame Holding AG was listed on the Nasdaq Stockholm Exchange, following a shares-for-share exchange offer to all SDR and shareholders of the previous top holding company Oriflame Cosmetics SA. Oriflame Cosmetics SA, was introduced on the Nasdaq Stockholm Exchange on 24 March 2004 through an initial public offering of Swedish Depositary Receipts (SDRs). On 31 December 2017, the number of shareholders was 8,536. The last price paid on 29 December 2017 was SEK 338.30, giving Oriflame a total market capitalisation of SEK 18.9 billion. During 2017 an average of 131,565 shares were traded per day on the Nasdaq Stockholm Exchange.

ORIFLAME HOLDING AG'S TOP 10 SHAREHOLDERS AS AT 31 DECEMBER 2017

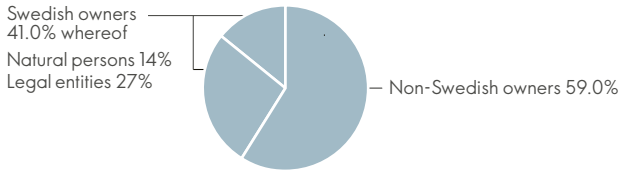
	Shares	Share capital and voting rights, %
Af Jochnick BV	6,327,001	11.3
Robert & Alexander af Jochnick & family	5,433,283	9.7
Fourth Swedish National Pension Fund (AP4)	4,897,827	8.8
Jonas af Jochnick & Family	4,362,898	7.8
First Swedish National Pension Fund (API)	2,469,154	4.4
Handelsbanken Fonder AB	2,227,389	4.0
M&G Investment Management Ltd.	2,107,420	3.8
Swedbank Robur Fonder AB	1,937,363	3.5
Acadian Asset Management LLC	1,715,943	3.1
JP Morgan Asset Management (UK) Ltd.	1,482,446	2.7
Treasury Shares owned by the company	13,160	0.0
Others	22,780,081	40.9
	55,753,965	100.0

Source: Cmi2i

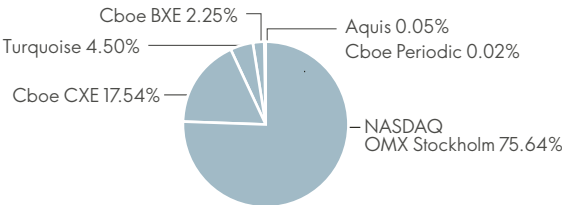
Geographic distribution of shareholders 2017



Distribution of shareholder-type 2017



Place of share trading 2017



Source: Fidessa Fragulator

HISTORY OF SHARE CAPITAL

The table below presents the changes in the company's share capital since 2014

Year	Transaction	Changes in no. of shares	Changes in share capital EUR '000	Total no. of issued shares	Total share capital EUR '000
2014	Initial issue	100,000	124	100,000	124
2015-06-19	New issue	48,391,447	69,468	48,491,447	69,592
2015-07-08	New issue	4,516,596	6,475	53,008,043	76,067
2015-08-14	New issue	1,288,931	1,782	54,296,974	77,849
2015-09-11	New issue	149,049	205	54,446,023	78,054
2015-09-30	New issue	1,262,540	1,734	55,708,563	79,788
2016-06-30	New issue	45,402	62	55,753,965	79,850

OWNERSHIP STRUCTURE AS AT 31 DECEMBER 2017

(Excluding Treasury shares)

Shareholding	No. of shareholder	%	No. of shares	%
1 – 1,000	7,807	91.5	890,431	1.6
1,001 – 10,000	455	5.3	1,525,908	2.7
10,001 – 50,000	145	1.7	3,461,231	6.2
50,001 – 500,000	104	1.2	14,104,856	25.3
500,001 – 1,000,000	15	0.2	10,031,340	18.0
1,000,001 –	10	0.1	25,727,039	46.2
Total	8,536	100.0	55,740,805	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. In May 2014, the Annual General Meeting (AGM) decided that payments will be made on a quarterly basis and that the Board will be given a mandate to decide the timing and size of the quarterly payments.

The Board of Directors will propose to the 2018 AGM a total dividend of €2.60 per share for 2017, given the company's strong financial position and with the Net debt/EBIDTA below the target range of 0.1 to 1.5 of which €1.60 per share is to be considered as ordinary and €1.00 to be considered as extra dividend. The ordinary dividend is to be paid in equal quarterly instalments of €0.40 respectively starting in the second quarter 2018, and the extra dividend is to be paid during the second quarter 2018. The dividend instalments will be distributed out of the company's Capital Contribution Reserve and are thereby not subject to any Swiss withholding tax.

SHARE TRADE

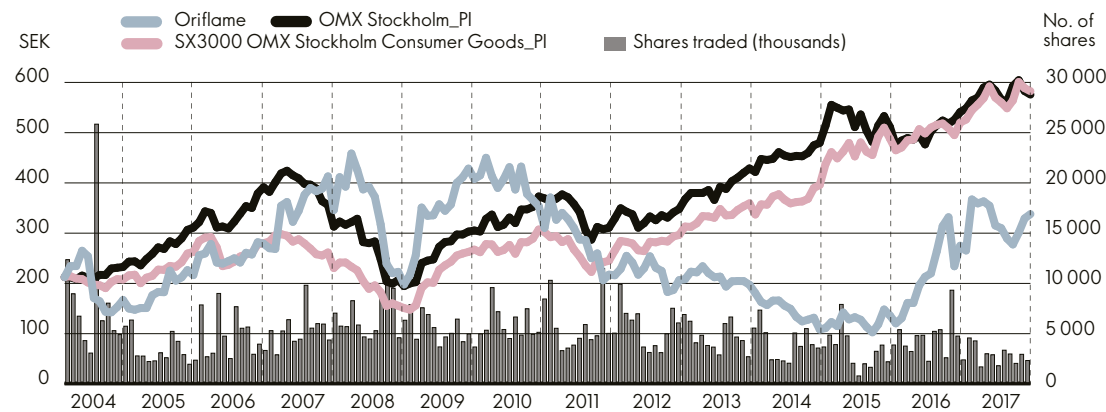
A total number of 29 million shares were traded on Nasdaq Stockholm during 2017, accounting for 75.64 percent of total turnover in the share. Oriflame's share is also traded in marketplaces outside of Nasdaq Stockholm such as Cboe, Turquoise and Acquis.

SHARE DATA

Listing	Nasdaq Stockholm
No of shares issued	55,753,965
Earnings per share	1.62
Dividend per share	1.00
Market capitalisation at 29 December 2017	18.9
Ticker code	ORI
ISIN-code	CHO256424794

Source: Euroclear and share register

SHARE PRICE



Source: Six

ANALYSTS FOLLOWING ORIFLAME

Name	Company
Niklas Ekman	Carnegie
Ole-Andreas Krohn	DnB Markets
Nicklas Skogman	Handelsbanken
Stellan Hellström	Nordea
Gustav Sandström	SEB

The Corporate governance report

INTRODUCTION

Corporate governance, management and control of Oriflame are apportioned among the shareholders at general meetings of shareholders, the board of directors of Oriflame Holding AG (the Board), the Board's elected committees and the executive management in accordance with Swiss law, Oriflame Holding AG's articles of association and the organisational regulations implemented by the Board. Oriflame complies with the Swedish Code of Corporate Governance* (the Code) to the extent that the Swedish Code does not conflict with Swiss law or regulations.

In common with most EU corporate governance codes, the Code sets out recommendations rather than mandatory rules. The Code is based on the principle of comply or explain, whereby companies are allowed the freedom to deviate from the Code if they feel alternative solutions better fit their particular circumstances, provided that they report the deviation(s), describe the alternative solution(s) and explain the reasons why. Oriflame's deviations are reported and explained under the heading Comply or Explain.

This corporate governance report has been prepared in accordance with the Code.

COMPLY OR EXPLAIN

OHAG deviates from the Code concerning the appointment of the nomination committee and its tasks: According to Swiss company law the nomination of the members of the board of directors, its chairman, the external auditor as well as appointment of the chair of the general meeting are inalienable tasks of the board of directors. The nominations to the board of directors, chairman of the board and auditor are to be presented by the board of directors to the annual general meeting for approval. The board of directors' proposals to the annual general meeting can be prepared by a committee, pro-

vided that such committee only consists of members of the board of directors. In keeping with Swiss company law OHAG has therefore formed a nomination & governance committee consisting solely of OHAG directors. This is a deviation from the Code, which stipulates that the shareholders are to appoint (or specify how to appoint) the nomination committee members and that members of the board of directors can be part of the nomination committee but may not constitute a majority thereof. During 2017 OHAG also deviated from the Code by having the nomination committee consist of only two members (whereas the Code states that the nomination committee shall have no fewer than three members). However, in order to ensure relevant input from shareholders, OHAG's nomination committee consults with, inter alia, OHAG's five largest shareholders before presenting their proposal to the board. The nomination committee does furthermore not make any recommendation on auditor's remuneration as, under Swiss law, the remuneration of the auditors is not a shareholders' decision. Nor does the nomination committee of OHAG prepare any recommendations on board and committee remuneration as, in accordance with Swiss law, such recommendations are to be put forward to the annual general meeting by the board of directors, and can only be prepared by the remuneration committee.

OHAG deviates from the Code concerning the appointment of the remuneration committee: While the Code stipulates that the board of directors shall appoint a remuneration committee, the members of OHAG's remuneration committee are, in accordance with Swiss law, appointed by the general meeting.

OHAG furthermore deviates from the Swedish Code by not having its general meetings hosted in the Swedish language: OHAG's general meetings are hosted in English only. As OHAG is a Swiss company the location for general meetings of shareholders is in Switzerland. It has not been deemed warranted from ownership structure point of view to offer simultaneous interpretation of the general meeting into other languages than English. OHAG, however, translates the notice and agenda to its general meetings into Swedish (available for download and ordering on OHAG's website).

* The latest version of the Swedish Code of Corporate Governance (effective as of 1 December 2016), including any amendments and instructions issued by the Swedish Corporate Governance Board, is available at www.corporategovernanceboard.se.

OHAG also deviates from the Code concerning the shareholders' influence on share and share-price related incentive schemes for the executive management as, under Swiss law, the arrangement of such schemes is one of the inalienable powers of the board. However, OHAG shareholders still have considerable influence on such remuneration schemes: Both the approval of conditional share capital increases, which are usually used to create shares for incentive schemes, as well as the approval of the aggregate amount of variable remuneration (regardless of whether paid out in cash or shares) to the board and executive management, lies within the discretion of the general meeting.

GENERAL MEETINGS

The supreme governing body of a Swiss stock corporation (Aktiengesellschaft) is the general meeting. A general meeting is normally convened by the board of directors. At least one general meeting shall be held per year. The annual general meeting takes place annually within six months of the end of the financial year. The agenda of the annual general meeting shall include the following items: (i) the approval of the management report, the annual financial statements and the consolidated financial statements, as well as the resolution on the appropriation of the profits as shown in the balance sheet, in particular, the declaration of dividends; (ii) the release from personal liability of the members of the board of directors and the persons entrusted with the executive management; (iii) the individual election of the members of the board of directors and the election from among them of the Chairman and the individual election of the members of the Remuneration Committee as well as the election of the independent proxy and the auditors; and (iv) the approval of the remuneration of the board of directors and executive management pursuant to the articles of association.

Extraordinary general meetings may be convened as and when required by the board of directors, the auditors or by a liquidator. Extraordinary general meetings shall be convened by the board of directors upon resolution by a general meeting or at the written request of one or more shareholders with voting rights representing an aggregate proportion of at least 10 per cent of the share capital, specifying the items and proposals to appear on the agenda and, in case of elections, the names of the candidates. General meetings shall be held where the company has its registered office or at such other location determined by the board of directors. OHAG intends to hold its general meetings in Switzerland. Minutes from general meetings will be published on OHAG's website.

The right to participate at general meetings shall accrue to any shareholder who is entered in the share register kept by Euroclear Sweden or the company on the record date determined by the board of directors and who has notified OHAG thereof not later than the date specified in the notice to attend the general meeting. The notice to participate at a general meeting shall be given by the shareholder as specified in the notice to attend the general meeting. Attendance at the general meeting is not a prerequisite for exercising one's rights: Apart from voting on the agenda items electronically, a shareholder who does not personally attend a general meeting may exercise his or her rights at the meeting through a proxy or through the independent proxy. The independent proxy is obligated to exercise the shareholder's vote in accordance with the shareholder's instructions. As stated below, the independent proxy is appointed by the general meeting. Both natural persons and legal entities may be appointed as independent proxy.

Notice to attend a general meeting shall always take place through an announcement in the Swiss Official Gazette of Commerce (the equivalent to the Swedish Official Gazette (Sw. Post- och Inrikes Tidningar)) and may be sent by mail to each registered shareholder. Moreover, OHAG publishes a shortened version of the notice to attend a general meeting in a daily Swedish newspaper. The notice to attend shall be published and sent by mail, as applicable, not later than 20 calendar days prior to the general meeting. Furthermore, the notice to attend must contain a proposed agenda for the general meeting and shall clearly state the matters to be addressed at the general meeting. The notice to attend is also always made public via a press release and published on OHAG's website.

Written requests to convene an extraordinary general meeting may be given by one or more shareholders jointly representing at least ten per cent of the share capital. Such notice shall be sent to the board of directors and shall state the purpose of the general meeting as well as a proposed agenda. Furthermore, shareholders jointly representing shares with a nominal value of CHF 1,000,000 or at least 10 per cent of the share capital may demand that an item be placed on the general meeting agenda. Swiss company law stipulates the following inalienable powers of the general meeting:

- to determine and amend the articles of association;
- to elect individually the members of the board of directors and the external auditor;

- to approve the management report and the consolidated accounts;
- to approve the annual accounts and resolutions on the allocation of the disposable profit;
- to discharge the members of the board of directors;
- to pass resolutions concerning the matters reserved for general meetings by law or the articles of association.

Furthermore, a general meeting of a Swiss company with shares listed in Switzerland or abroad has the following additional inalienable powers regarding:

- election of the chairman of the board;
- election of the members of the Remuneration Committee;
- election of the independent proxy;
- resolutions concerning remuneration of directors and the executive officer as well as the remuneration of the advisory board (if applicable).

As a general rule, a shareholder may exercise his voting rights in proportion to the total nominal value of the shares owned or represented by such a shareholder, unless otherwise prescribed in the articles of association. The articles of association may limit the number of votes allocated to an owner of several shares. However, each shareholder is entitled to at least one vote. The voting rights of the shareholders are determined by the nominal value of the share. In this case, the shares with the lowest nominal value will be worth at least one tenth of the nominal value of the other shares. The articles of association may specify that voting rights are not dependent on nominal value with the result that each share carries one vote. The determination of the voting rights according to the number of shares does not apply to the appointment of auditors, the appointment of experts to inspect management practices or individual parts thereof, or a resolution on raising a liability action against a director of the board. OHAG's articles of association do not limit the number of votes allocated to any owner. Furthermore, OHAG has issued only one class of shares, with one and the same nominal value (CHF 1.50) and the same voting right for each share (one vote per share).

The general meeting passes resolutions and conducts its elections by an absolute majority of the votes represented, unless Swiss law or the articles of association provide otherwise. However, a general meeting resolution passed by a majority of at least two-thirds of the votes represented and an absolute majority of the entire nominal capital represented at the general meeting in respect of which a right to vote may be exercised is required, inter alia, in the case of:

- the amendment of the objects of the company;
- the introduction of capital contributions with preferential voting rights;
- an increase in or easing of the restrictions on or the prohibition of the transferability of capital contributions;
- the restriction or revocation of subscription rights;
- the relocation of the registered office of the company;
- the dissolution of the company.

To the extent that personal notification is not required by law, all communications to the shareholders are deemed valid if published in the Swiss Official Gazette of Commerce. Communications by OHAG to its shareholders may also be sent by ordinary mail to the last address of the shareholder entered in the share register of the company.

Oriflame does not permit remote participation in general meetings. Oriflame does, however, enable shareholders to vote without being present by proxy as well as by electronic voting. Since it is listed on the Nasdaq Stockholm Exchange, Oriflame also hosts a shareholders' day in Stockholm in advance of the annual general meeting, where shareholders have the opportunity to meet with directors and management and to ask questions related to, inter alia, the annual general meeting. In advance of the 2017 annual general meeting, such shareholders' day was held on 28 March 2017.

BOARD OF DIRECTORS

The board of directors is responsible for the overall management of OHAG's business. Its duties include the issuing of all necessary directives, determination of the company's organisation, overall supervision of the persons entrusted with managing the company, implementation of resolutions of a general meeting, preparation of various company reports, accounting and minutes. The articles of association may authorise the board of directors to delegate the management or part of the company's business to individual members or third parties in accordance with its organisational regulations. These regulations regulate the management of the company's business, stipulate the bodies required to carry this out, define their duties and, in particular, regulate the company's internal reporting. Certain duties of the board of directors are, however, non-transferable and inalienable.

Swiss company law stipulates the following non-transferable and inalienable duties of the board of directors:

- the overall management of the company and the issuing of all necessary directives;
- determination of the company’s organisation;
- the organisation of the accounting, financial control and financial planning systems as required for management of the company;
- the appointment and dismissal of persons entrusted with managing and representing the company;
- overall supervision of the persons entrusted with managing the company, in particular with regard to compliance with law, the articles of association, operational regulations and directives;
- compilation of the annual report, preparation for general meetings and implementation of their resolutions;
- notification of the court in the event that the company is over-indebted.

Moreover, the following resolutions are also non-transferable functions of the board of directors: Resolutions in connection with capital increases in accordance with Article 651a, 652g, 653g SCO (certain amendments of the articles of association) and Article 651 IV SCO (authorised capital increase), resolutions in accordance with Article 634a (subsequent contributions in respect of shares that are not fully paid-up) and certain resolutions in accordance with Swiss merger legislation.

In accordance with Article 14 of the articles of association, the Board has established rules of procedure which set forth how and when the Board convenes, including instructions for the allocation of duties and responsibilities within and between the Board, its committees and the executive management (the Organisational Regulations). The Organisational Regulations also contain instructions for financial reporting and set forth how reporting to the Board is to proceed.

The board of directors may comprise one or more members. It may include employees of Oriflame (in which case, labour law will be applicable) or fiduciary trustees. At least one director of the board must be authorised to represent the company and the company must be able to be represented by one person with sole signatory rights who is resident in Switzerland or by two persons with joint signatory rights who are residents of Switzerland. This latter requirement may be fulfilled by a director of the board or by an executive officer. Deputy directors may not be appointed according to Swiss law. Currently,

the Board consists of nine directors. The Board consists of principal shareholders and persons independent of such shareholders. The CEO is a member of the Board. Members of the board of directors are appointed for a period up until the end of the next annual general meeting. Except for the appointment of the chairman of the board as well as the members of the remuneration committee by a general meeting in accordance with the articles of association, the board may organise itself. The board of directors is required to have a secretary, who has certain duties and authorities according to Swiss law. The secretary shall assist the board of directors, its committees and the chairman of the board in coordinating and fulfilling their duties in accordance with the company’s Organisational Regulations.

Meetings of the board of directors shall be held as often as required. According to the Organisational Regulations, the Board shall convene at least four times per year, of which at least one meeting is to focus on business strategy issues. During 2017, OHAG held nine board meetings, one of which was a two-day strategy meeting. The secretary at board meetings is in-house counsel Pontus Andreasson.

Minutes shall be taken at meetings of the board of directors. A notation shall be made in the minutes of the topics discussed as well as the resolutions adopted by the board of directors. The minutes shall be signed by the chairman of the board and the secretary. Resolutions of the board of directors may also be adopted by written consent, by telefax, by e-mail or any other means enabling the passing of resolutions by text, provided that none of the members demands verbal discussion. A member must participate personally at the board meeting (physically or remotely via phone or video conference), and may not exercise his or her rights at the meeting through a proxy.

The board meetings usually 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 present the target and budget proposition for the following year to the Board, which then reviews and discusses the proposal during one or several board meetings. Following discussions and possible adjustments, the Board approves the target/ budget for the upcoming year.

2017 Board and committee attendance

Board member	Board meetings	Remuneration committee meetings	Audit committee meetings	Nomination committee meetings
Alexander af Jochnick (Chairman)	9	4	5	2
Magnus Brännström	9	–	–	–
Anders Dahlvig	6	–	–	2
Jonas af Jochnick	6	–	–	–
Robert af Jochnick	9	–	–	–
Anna Malmhake	9	–	–	–
Christian Salamon	8	–	5	–
Karen Tobiasen	7	4	4	–
Mona Abbasi	9	–	–	–
Total number of meetings	9	4	5	2

The directors participate in all discussions. Directors may, however, not vote or deliberate on any motion in which they have a conflict of interest. A director is not counted in the quorum of a meeting if a conflict of interest disallows him/her from voting on a particular motion. Directors 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. The CFO is generally invited to all board meetings, and always to the board meetings convened to approve quarterly results. Other members of the Oriflame management are from time to time invited to board meetings 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.

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 advance of the 2017 year-end report, such a meeting took place on 14 February 2018.

Remuneration of the directors is determined by a resolution adopted by the annual general meeting. The 2017 annual general meeting resolved that the remuneration of the directors and committees until the next annual general meeting would amount to a maximum total of EUR 410,000 to be divided as follows: EUR 70,000 to the Chairman of the Board; EUR 35,000 to each non-executive Director of the Board; EUR 15,000 to the chairman of the audit committee, and EUR 10,000 to each committee member.

Independence according to the Code: Directors Mona Abbasi, Anders Dahlvig, Anna Malmhake, Christian Salamon and Karen Tobiasen are deemed independent of Oriflame, its management and its major shareholders. Magnus Brännström is not independent of the company and its management, being the company’s CEO. Robert and Jonas af Jochnick are not independent of the company nor of its major shareholders: Robert and Jonas af Jochnick are co-founders of Oriflame and have been directors of the board since its foundation. Robert, Jonas and Alexander af Jochnick are, together with other members of the af Jochnick family, the largest shareholders of the company.

For more information about the directors, please see the section Board of Directors on pages 144–145 of the annual report.

NOMINATION & GOVERNANCE COMMITTEE AND NOMINATION PROCESS

Following the annual general meeting on 9 May 2017, the board established a nomination & governance committee from among its members. The purpose and aim of the nomination & governance committee is to ensure the quality of the board, its committees and the company’s governance structure and to nominate candidates for the board, the chairman of the board, the members of board committees, the independent proxy as well as the external auditor of the company. The aim of the nomination & governance committee is that elected directors will represent knowledge and competence relevant to Oriflame’s operations.

The candidate nominations are prepared by the committee and are then resolved upon by the board of directors before being put forward to the annual general meeting for election or re-election.

The members of the nomination & governance committee are appointed by the board of directors each year following the annual general meeting. The nomination committee meets at least biannually. The members of the nomination & governance committee formed in 2017 consist of Alexander af Jochnick and Anders Dahlvig. Anders Dahlvig is chairman of the nomination & governance committee.

In order to reflect best corporate governance practice among companies listed on the Nasdaq Stockholm Exchange, the nomination & governance committee Charter stipulates that the nomination committee shall consult with, inter alia, the largest shareholders of the company. Such consultation took place in advance of the 2018 annual general meeting, when the nomination committee invited the five largest shareholders of the company to a nomination & governance committee meeting to consult and agree on their further involvement in the nomination process. The following shareholder representatives have been involved and given their input to the nomination committee in advance of the 2018 annual general meeting: Per Hesselmark (Af Jochnick BV), Per Colleen (Fourth Swedish National Pension Fund) and Ossian Ekdahl (First Swedish National Pension Fund). In addition, the af Jochnick family has been represented at the nomination committee meetings through Alexander af Jochnick.

In advance of the 2018 annual general meeting, the nomination & governance committee formed in 2017 has met three times – once during 2017 and twice during 2018. All meetings were attended by all committee members.

In advance of the 2018 annual general meeting, the work of the nomination & governance committee comprised the following: As a basis for its work, the nomination & governance committee commissioned an external consultant to carry out an evaluation of the board and its committees. The evaluation included interviews with each of the board members. The evaluation concluded 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 also concluded that the Board is composed of individuals with relevant and complementary expertise and that all directors demonstrated a high level of commitment. Independent directors are included in full compliance with

requirements that apply for publicly listed companies in Sweden. The nomination committee has thereafter formulated its proposals for presentation to the board in advance of the annual general meeting to be held on 4 May 2018. The proposals relate to the:

- i. composition of the board of directors including appointment of the Chairman;
- ii. composition of the remuneration committee;
- iii. appointment of auditors; and
- iv. appointment of independent proxy for the next annual general meeting

Under Swiss law, the preparation of the proposals on remuneration of directors is not a task that can be delegated to the nomination committee. Such proposals have instead been prepared by the remuneration committee (see further below).

REMUNERATION COMMITTEE

As per mandatory Swiss law, Swiss companies whose equity securities are listed must have a remuneration committee. As per article 17 of the articles of association of the company, the remuneration committee consists of at least two members of the board of directors. Each member of the remuneration committee is elected individually by a general meeting for a term of office until the close of the next annual general meeting. The remuneration committee constitutes itself and elects a chair from among its members. It appoints its secretary who needs not be a director of the board or a member of the remuneration committee. The members of the remuneration committee elected by the annual general meeting held on 9 May 2017 for the time until the annual general meeting 2018 are Alexander af Jochnick (committee chair) and Karen Tobiasen. In-house counsel Pontus Andreasson has been secretary of the remuneration committee

Members of the remuneration committee whose term of office expires are immediately eligible for re-election. If there are vacancies on the remuneration committee, the board of directors may appoint the missing members from among its members for the remaining term of office.

The remuneration committee supports the board of directors in establishing and reviewing the company's remuneration strategy and guidelines and performance criteria as well as in preparing the proposals to the general meeting regarding the remuneration of the board of directors and executive management. It may submit

proposals and recommendations to the board of directors in other remuneration-related issues. The board of directors has established a charter, which defines purpose, composition and procedural rules for the remuneration committee, including its responsibilities and authorities for making proposals and decisions related to remuneration of the members of the board of directors and executive management in line with legal and regulatory requirements, the articles of association and the respective remuneration framework approved by the board of directors from time to time. The board of directors may delegate further responsibilities and authorities to the remuneration committee.

The purpose and aim of the remuneration committee is to ensure that Oriflame 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 Oriflame's operations. The specific tasks of the committee are to review remuneration and other material terms of employment for Oriflame's executive directors, senior executives and other key personnel, monitor and evaluate programmes of variable remuneration for executive management and, in particular, to monitor and evaluate any share-based incentive programme. The remuneration committee is also responsible for drawing up the report on executive pay (the Compensation Report), which is put forward to the shareholders at the annual general meeting.

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 but at least twice per year. During 2017, the remuneration committee met four times.

AUDIT COMMITTEE

The company's audit committee is appointed by the Board each year following the annual general meeting. The audit committee reviews internal and external information, works with the external auditor on the audit plan and internal controls and discusses with management the audit results. The audit committee reviews matters related to Oriflame's accounting, financial reporting and internal control as well as financial risk exposure and risk management. It also reviews the work of the auditors. Based on these reviews, the audit committee prepares proposals for resolutions, subject to final approval by the Board. The audit committee meets at least biannually. In 2017, the audit committee met five times. The members of the audit committee during 2017 comprised Alexander af Jochnick, Christian Salamon (committee chair),

and Karen Tobiasen. The CFO and the Vice President Tax, Group Risk and Compliance report to the audit committee and, together with the company's auditors, are invited to all regular meetings.

AUDITOR

The annual general meeting held on 9 May 2017 resolved to re-elect KPMG AG as independent auditor in respect of the statutory accounts and consolidated financial statements until the close of business of the next annual general meeting. KPMG AG, Zurich is the Swiss member firm of KPMG International. It is the third year that KPMG AG, Zurich has been engaged as Oriflame's independent auditor. The audit team is headed by H  lene B  guin. Apart from her engagement with Oriflame, H  lene B  guin holds no assignments for any persons affiliated with Oriflame or for any of Oriflame's major shareholders. In connection with the year-end audit, H  lene B  guin met with the board on 14 February 2018 in order to present the audit findings. The KPMG audit team attended all regular audit committee meetings throughout the year. For fee details on non-audit services provided by KPMG, please see Note 6 of the Annual Report.

EXECUTIVE 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 is a graduate of Uppsala University, Sweden, and joined Oriflame as Managing Director of Russia in 1997. He then became Regional Director for CIS, Baltics and Asia. He has been CEO since 2005.

The Corporate Committee is the company's executive management and is responsible for implementing the Group strategy, business control and the allocation of resources between the regions. The Corporate Committee is headed by the CEO. In addition to the CEO, the Corporate Committee consists of Gabriel Bennet (Chief Financial Officer) and Jesper Martinsson (Senior Vice President Global Sales & Head of Commercial Division and Deputy CEO). The allocation of duties and responsibilities within and between the Board and the Corporate Committee are set out in the Organisational Regulations and Officer Instructions drawn up by the Board. The Regulations and the Instructions are reviewed and reconfirmed or amended by the Board at least once per year.

GROUP MANAGEMENT

In addition to Corporate Committee members, Group Management consists of the following Vice Presidents:

- Michael Cervell, Senior Vice President, Group Strategy & Business Development
- Thomas Ekberg, Senior Vice President & Head of Global Business Area Asia & Turkey
- Johan Rosenberg, Senior Vice President Global Business Areas and Franchisees
- Antonia Simon-Stenberg, Vice President Sustainability, Quality & Packaging

MANAGEMENT BUSINESS REVIEW

The Oriflame Corporate Committee has a full end-to-end review once a month to ensure compliance with the business strategy and the desired position. The process is led by an appointed business review leader, and executives and senior managers in the business are invited to review certain areas. The Management 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 presented on this page.

REGIONAL MANAGEMENT

Oriflame distributes its products through a network of approximately 3 million independent Oriflame Consultants in more than 60 countries. Group segmentation is based on cosmetics sales by geographic business area, with the business areas being Latin America, Europe & Africa, CIS and Asia & Turkey. Each business area has its own staff and resources to facilitate effective control and is headed by a Head of Business Area. Each Head of Business Area reports to the CEO.

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

Oriflame has a local presence in each region in the form of wholly owned sales companies in a total of 55 markets. In 11 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 Schaffhausen, 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 shared objective of giving Oriflame a competitive advantage by supplying first-class service and support to the local sales companies.



Report on internal control, risks and monitoring

This report on internal control, risks and monitoring in Oriflame has been prepared in accordance with the Swedish Corporate Governance Code. It has been read by the company's auditor. The company's auditor has furthermore reviewed the company's internal control system to the extent necessary to deliver their audit opinion on the financial results, which in accordance with Swiss law includes a confirmation of the existence of an internal control system designed for the preparation of consolidated financial statements.

Back in 2010, the company selected the COSO framework as a basis for its internal control system. 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,
- Internal controls,
- Information and communication,
- Monitoring.

Since then, Internal Control is a permanent function within the Oriflame Group.

CONTROL ENVIRONMENT

The Board of Directors 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 acquisition, measurement and protection of assets, controlling the accuracy and reliability of reports, and ensuring compliance with internal guidelines. The policies and guidelines are the foundation for the internal control system. The Board has also ensured that the organisational structure is logical and transparent, with clear

roles, responsibilities and processes that facilitate the effective management of operational risks and enable the company to fulfil its goals. This process includes the evaluation by the Board of the business performance and results through reports that contain results, forecasts and targets. Also, the Board reviews the interim and annual reports before they are presented externally.

The Audit Committee (composed of board members) monitors the effectiveness of internal controls, considers critical questions regarding financial reporting and regulatory compliance. The company's auditor is invited to participate in the regular meetings of the Audit Committee. The Group Risk and Compliance Director is also a regular invitee to the Audit Committee meetings, as head of internal control, in order to present the latest developments on internal controls, related policies, procedures and to formally request approval of the Audit Committee, where relevant. For each business area and corporate function, the Chief Financial Officer has appointed a Vice President Finance, who is responsible for the implementation and documentation of internal controls, as well as for reporting in accordance with company guidelines, and ensuring compliance with local laws and regulations. Each Vice-President Finance may be supported in this task by one or several Regional Finance Directors. The Group Risk and Compliance Director is responsible for the design of internal controls. The head of finance in each Oriflame entity is in charge of the implementation and of the documentation of internal controls. Regional controllers perform the verification of internal controls implemented locally. They specifically consider the implementation of the controls as well as their effectiveness, by reviewing the quality of the documentation. They subsequently report the results of their verifications to the Vice-Presidents Finance and Regional Finance Directors, who are then responsible for supervising and monitoring the execution of the recommended improvements and changes within their area of responsibility. Since 2011, the company has deployed

an internal control software platform, which enables real-time monitoring of the existence of internal controls, as well as the preservation of historical data. The internal control and compliance function is supervised by a Vice President who is also responsible for Global Treasury and Global Tax functions in the Group.

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 banks, credit process, sales, performance discount and bonuses, and information technology system. These financial reporting risks were addressed during 2011, as well as two additionally identified financial risks: Accounts payables and risks related to the hedging function of the Treasury department. In 2012, the company has added legal compliance and fixed assets control processes to the management of risks related to corporate integrity. In 2013, the management of risks related to the hedging function of the Treasury department was further addressed by implementing a dedicated control process. In addition, all the relevant control processes already in force in the sales entities were extended to the manufacturing entities and to the main trading branch. In 2014, the company has implemented internal controls for Tax reporting & Consolidation, as well as expanded the scope and depth of Treasury-related controls.

INTERNAL CONTROLS

A control process description follows the logical structure of the business and reporting flow, with a clear definition of steps and related controls. It also assigns control responsibilities to different positions involved in the process and states the reasons for the control. The key controls encompass the controls that are most critical to the integrity of financial statements. Non-key controls are also in place to address risks that may not affect the financial statements, but are critical to operations. 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.

COMPLIANCE REPORTING MECHANISM - CODE OF CONDUCT

Since 2007, Oriflame operates a compliance reporting mechanism administered by the General Counsel of the group, who guarantees confidentiality and protection to employees reporting in good faith. All reports containing allegations of misconduct per the Oriflame code of conduct are investigated and recommendations are communicated to the management of the group in order to take action where necessary. The statistics of the reporting mechanism, as well as the highlights of the major cases, are presented on a quarterly basis to the Audit committee, while preserving the confidentiality of the employees having reported.

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, as well as 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, internal controls and documentation are available to the relevant employees through the Internal Control software platform.

MONITORING

The internal control system is continuously monitored at group level by the Risk and Compliance department, and pending matters or concerns are addressed to the relevant personnel immediately. If an internal control is not implemented or if the documentation is not adequate, the Finance Manager in charge is asked to perform or correct the control procedure and provide new or relevant evidence. Regional controllers are also involved in the continuous improvement of the internal control system under the responsibility of the Risk and Compliance department.

PRINCIPAL RISKS AND UNCERTAINTIES

Strategic and operational risks

In the long term, Oriflame's business depends significantly upon its ability to retain its existing Oriflame Consultants and recruit new 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 Oriflame Consultants could adversely impact the growth and the performance of the distribution network and thus, 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, 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 and on Europe-based cloud computing architecture, supported and monitored in India. More than 90 per cent of orders are placed online, and any interruption in these facilities due to natural disasters or durable software malfunction could negatively impact the company's operations.

Oriflame is dependent on an outsourcing partner for financial accounting operations. Any durable interruption of services affecting this partner may impact the ability of the company to issue financial statements timely.

Environmental compliance costs and liabilities could as well impact adversely the Group's financial condition.

Financial risks

Given the international nature of Oriflame's business, the Oriflame Group is exposed to double-taxation. The tax and transfer pricing strategies utilized in Oriflame are based on best practice interpretations of current tax laws, treaties and regulations of the various

countries involved and the requirements of the relevant tax authorities. In the event that Oriflame's interpretation of these laws, treaties and regulations or their applicability is incorrect, if one or more governmental authorities successfully assert conflicting claims over the ability to tax profits in the respective subsidiary or the Oriflame Group or if the applicable laws, treaties, regulations or governmental interpretations thereof or administrative practice in relation thereto change, Oriflame's effective tax rate could increase and could adversely affect the results. In the event tax authorities were successfully in challenge the Oriflame Group's past or current tax positions, this could result in an increased effective tax rate.

Oriflame is exposed to the risk of currency fluctuations in many countries where it operates 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 26 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 Oriflame Consultants could affect negatively the company's operations and ability to recruit new Consultants 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 the company's 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.

Compensation report

1. INTRODUCTION

The Compensation Report outlines the principles behind, and the elements of, the remuneration paid to the board of directors of Oriflame Holding AG and the company's executive management and also includes its subsidiaries (Oriflame Holding AG and where applicable its subsidiaries; hereafter collectively referred to as Oriflame). It details the remuneration paid to the board of directors and executive management in accordance with Swiss law. It also details the shareholdings in the company held by the board of directors and executive management, as well as the details of the Share Incentive and Retention Plan covering the executive management and other senior executives of Oriflame.

This Compensation Report will be submitted to the annual general meeting (AGM) of the company to be held on 4 May 2018 for a consultative vote.

2. GOVERNANCE

2.1 Overview

The board of directors has overall responsibility for defining the remuneration principles of Oriflame and the proposed remuneration of the board of directors and executive management (the Corporate Committee). The board of directors has delegated the preparatory work involved to the Remuneration Committee, which submits its proposal to the board for review and approval. After approval, the board puts forward the proposals to the AGM for final approval.

2.2 Remuneration Committee

Starting at the 2016 AGM and in accordance with Swiss company law, the members of the Remuneration Committee are elected by the shareholders. Once elected, the Remuneration Committee constitutes itself and elects its Chair. The board of directors has established a charter, which defines the purpose, composition and procedural rules of the Remuneration Committee, including its responsibilities and authorities for making proposals and decisions related to remuneration of the members of the board of directors and executive management.

Only members of the board of directors can be members of the Remuneration Committee. The Chairman of the board may be a Remuneration Committee member and may also be its Chairman. The other members of the Remuneration Committee shall be independent of Oriflame and its executive management.

The Remuneration Committee formed following the 2017 AGM and in place until the 2018 AGM consists of Karen Tobiasen and Alexander af Jochnick (Committee Chairman and Chairman of the board). The purpose and aim of the Remuneration Committee is to ensure that Oriflame has access to the competence required at an appropriate cost, and that the existing and future remuneration schemes have the intended effects for Oriflame's operations.

The tasks of the Remuneration Committee are to:

- Support the board in establishing and reviewing Oriflame's remuneration strategy and guidelines and performance criteria and prepare the proposals for presentation to general shareholders' meetings regarding the remuneration of the board and executive management;
- Submit proposals and recommendations to the board concerning other remuneration-related issues;
- Prepare the Compensation Report that the board of directors is legally obliged to establish, as well as the current remuneration structures and levels among Oriflame's executive management;
- Monitor and evaluate variable remuneration programmes for executive management, both ongoing and those that ended during the year;
- Monitor and evaluate any key employee benefits plan, including any stock option or similar plan implemented in Oriflame.

For information about the work of the Remuneration Committee during 2017, please see page 68-69 in the Corporate Governance Report.

3. REMUNERATION OF EXECUTIVE MANAGEMENT

3.1 General principles of remuneration

Oriflame shall attract and retain the competence required in order to successfully manage its operations, at a cost appropriate to the company. Oriflame shall offer competitive remuneration packages with regard taken to position and market in order to attract and retain the best individuals for the positions. In order to promote long-term ownership interest and thus ensure promotion of Oriflame's long term objectives and alignment with shareholders' interests, Oriflame offers its key management personnel an opportunity to participate in a Share Incentive and Retention Plan.

Oriflame's total remuneration offering to its employees comprises fixed base salaries, bonus/profit-sharing schemes, share-incentive programmes and pensions. The use of these various components is illustrated by the table to the right.

3.2 Executive remuneration overview

The remuneration of executive management consists of the following key components:

- Fixed base salary
- Variable remuneration in the form of profit sharing linked to an increase in operating profit
- Variable remuneration in the form of Share Incentive and Retention Plan (SIP)
- Pensions, including contributions to private defined-contribution pension schemes and state or country-mandated schemes
- Other non-monetary benefits associated with the position

i. Fixed Base Salary

The members of Oriflame's executive management are offered fixed salaries that are competitive and are based on the respective individual's responsibilities and performance, as well as being commensurate with market salaries for similar roles in companies that are comparable with Oriflame in terms of size, industry, complexity and geographical scope.

Base salary adjustments are made primarily on the basis of market evolution, change of responsibilities and the inflation trend, although at all times taking into consideration the executive's performance and contribution to company results. Salary adjustments for members of executive management are decided by the board of directors.

ii. Profit Sharing

The company allocates 10 per cent of any increase in operating profit compared with the preceding year to be shared among the company's executive management and the members of Group Management, although the amount for each individual is capped at the equivalent of 12 months' salary. The allocation is made according to position. The 10 per cent includes company costs for social charges.

Oriflame compensation

Number of participants per 31 December 2017



iii. Share Incentive and Retention Plan:

Oriflame offers a Share Incentive and Retention Plan covering Oriflame's executive management and approximately 50 additional senior employees. Each year, the individuals are invited by the board of directors to designate a number of Oriflame shares they either already own or will purchase at the current market price as Investment Shares under the Plan. In return, the participants will, within an Investment Period of normally three to five years, receive between 0 and 8 free shares (i.e. the Achievement Shares) per Investment Share. The number of Achievement Shares awarded depends on the increase in Oriflame's adjusted operating profit over the Investment Period. For each investment year, an award grid proposal is developed by the Remuneration Committee and ultimately resolved upon by the board of directors. The award grid is based on Oriflame's long-term strategic scenario and is set so that profitability growth is awarded with shares on a sliding scale. Targeted average outcome is 4 achievement shares per investment share. The number of Investment Shares offered is capped so that the potential share capital dilution from Investment and Achievement shares issued under the Plan never exceeds 1 per cent per year.

In order to be eligible for any Achievement Shares, the participants need to i) remain employed by Oriflame throughout the Investment Period*, and ii) keep their Investment Shares for the entire Investment Period**.

The historical pay-out under previous Share Incentive Plans issued on similar terms for the past five years is illustrated by the table to the right.

The actual dilution over the past five years, resulting from the plans, amounts to a total of less than 1 per cent. Further details on non-vested grants and Oriflame's costs for the Share Incentive and Retention Plan can be found in Note 21 of the Annual Report.

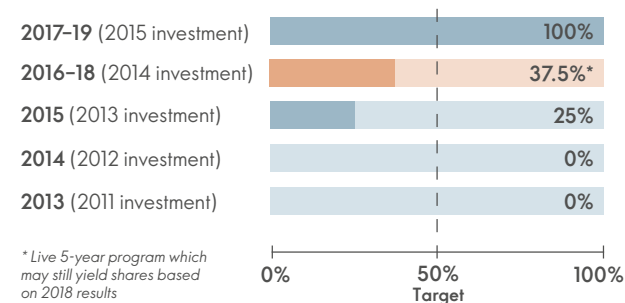
iv. Pensions

Members of executive management and other senior employees are offered pension benefits that are competitive in the country where the individual is resident. The company pays pension premiums into an independent defined-contribution scheme. The pension allocations are based on fixed remuneration and do not take into account any variable remuneration. In addition, where required by law, Oriflame makes contributions into defined-contribution schemes.

v. Other benefits

Members of Oriflame's executive management and other senior employees are entitled to customary benefits such as company cars and company health care. Moreover, certain individuals may be offered company housing and other benefits including schooling fees. In some cases, Oriflame's policy permits the members to opt for cash allowances in lieu of the benefit.

Historical outcome of Oriflame's share incentive plans



* Employees who have been employed with Oriflame for more than 10/15 years are under certain conditions entitled to Achievement Shares even if their employment has ended.

** The Board of Directors can in exceptional cases decide to shorten such investment period.

4. ANNUAL SUMMARY OF REMUNERATION TO THE MEMBERS OF EXECUTIVE MANAGEMENT

4.1 2017 Executive Management remuneration

The below remuneration covers the period 1 January 2017 to 31 December 2017. The executive management comprises the Corporate Committee, consisting of the CEO, the Deputy CEO and the CFO. There have been no changes to the Corporate Committee members during the period. The highest remunerated individual during the period was the CEO – Magnus Brännström.

2017 Executive management remuneration

Corporate Committee	Fixed Remuneration (EUR)	Profit sharing plan (EUR)	Max no. of achievement shares	Maximum value (EUR)	Pensions (EUR)	Other benefits (EUR)	Maximum total (EUR)	Maximum total (CHF)
All members (incl. the CEO)	1,919,186	1,831,687	202,400	6,748,016	922,329	1,469,931	12,891,149	15,085,222
The CEO (Magnus Brännström)	792,777	753,888	100,000	3,334,000	448,561	274,831	5,604,057	6,557,868

Comments

- The actual total 2017 remuneration may vary from the indicated maximum total, as the above calculation includes the accounting value of the maximum amount of 8 Achievement Shares per Investment Share that can be delivered under the 2017 investments in the Share Incentive and Retention Plan – the actual award of Achievement Shares will vary between 0 and 8 per Investment Share depending on the Operating Profit development during the investment period.
- The maximum number of Achievement Shares is based on the number of Investment Shares allocated in 2017 under the Share Incentive Plan. The Investment Shares were allocated by the participants through the designation of either i) shares they already held at the time of the offer, or ii) new shares acquired at market price. The 2017 investments will vest during years 2020 – 2022.
- The maximum value of the Share Incentive Plan allocations is calculated using the fair value at grant date of EUR 33.34 per Investment Share and the maximum potential award under the Plan of 8 Achievement Shares per Investment Share.
- Other benefits includes the cash value of non-monetary benefits such as company cars/car allowance, company housing, health care premiums, schooling fees and other customary benefits. Other benefits also includes mandatory state pension and social security payments made by Oriflame totalling EUR 351,049 (CHF 410,797).
- Pensions includes contractual extra-ordinary pension payments to Executive management members based on reaching certain thresholds of age/time served in the company. The underlying regular pension contributions, as well as other fixed benefits remains unchanged versus 2016.
- For the purposes of this Compensation Report, the following EUR – CHF exchange rate has been used: 1.17 (2016: 1.0739).

4.2 2016 Executive management remuneration

The below remuneration covers the period 1 January 2016 to 31 December 2016. There have been no changes to the Corporate Committee during the period. The highest remunerated individual was the CEO – Magnus Brännström.

2016 Executive management remuneration

Corporate Committee	Fixed Remuneration (EUR)	Profit sharing plan (EUR)	Max no. of achievement shares	Maximum value (EUR)	Pensions (EUR)	Other benefits (EUR)	Maximum total (EUR)	Maximum total (CHF)
All members (incl. the CEO)	1,978,618	1,091,932	212,000	3,225,601	1,013,556	1,514,155	8,823,862	9,475,946
The CEO (Magnus Brännström)	839,794	510,860	116,000	1,764,952	507,240	251,622	3,874,468	4,160,792

Comments

- The actual total 2016 remuneration may vary from the indicated maximum total, as the above calculation includes the accounting value of the maximum amount of 8 Achievement Shares per Investment Share that can be delivered under the 2016 investments in the Share Incentive and Retention Plan – the actual award of Achievement Shares will vary between 0 and 8 per Investment Share depending on the Operating Profit development during the investment period.
- The maximum number of Achievement Shares is based on the number of Investment Shares allocated in 2016 under the Share Incentive Plan. The Investment Shares were allocated by the participants through the designation of either i) shares they already held at the time of the offer, or ii) new shares acquired at market price. The 2016 investments will vest during years 2019–2021.
- The maximum value of the Share Incentive Plan allocations is calculated using the fair value at grant date of EUR 15.22 per Investment Share and the maximum potential award under the Plan of 8 Achievement Shares per Investment Share.
- In addition to the remuneration listed in the above schedule, the 2013 investments under the company's Share Incentive Plan vested during 2016, resulting in an award of 2 Achievement Shares per Investment Share. The Corporate Committee members thereby received achievement shares relating to their 2013 investments as follows:
 - All members (incl. the CEO): 41,040 shares
 - The CEO: 18,196 shares
- Other benefits includes the cash value of non-monetary benefits such as company cars/car allowance, company housing, health care premiums, schooling fees and other customary benefits. Other benefits also includes mandatory state pension and social security payments made by Oriflame totalling EUR 327,184 (CHF 351,363).
- Pensions includes contractual extra-ordinary pension payments to Executive management members based on reaching certain thresholds of age/time served in the company. The underlying regular pension contributions, as well as other fixed benefits remains unchanged versus 2015.
- For the purposes of this Compensation Report, the following EUR – CHF exchange rate was used for the 2016 remuneration: 1.0739.

5. REMUNERATION TO THE BOARD OF DIRECTORS

The remuneration for the members of the Board of Directors should be set so that it attracts and retains relevant, experienced and motivated people for the Board of Directors function. The Remuneration Committee has benchmarked the current board remuneration against relevant comparable companies. The benchmark study concluded that while the remuneration is significantly below the normal Swiss market remuneration for comparable functions and comparable industry with similar size and complexity as Oriflame, it is close to normal market remuneration for comparable companies listed on the Nasdaq Stockholm exchange.

The remuneration is made up of Directors Fees and additional fees for the board members that are part of Audit Committee, Remuneration Committee or Nomination and Governance committee. The members of the Board of Directors obtain all of their remuneration in cash. The cash component is paid out on a biannual basis in arrears, usually in June and December each year.

Company Executives who are members of the Board of Directors – currently the CEO (Magnus Brännström) – receive no additional remuneration for their Board assignments and do therefore not appear in the below schedules.

6. ANNUAL SUMMARY OF REMUNERATION TO THE NON-EXECUTIVE MEMBERS OF THE BOARD OF DIRECTORS

6.1 2017 Board remuneration

The below Directors and Committee fees cover the period from 1 January 2017 to 31 December 2017.

Board of Directors	Title	Membership fees				Total remuneration (EUR)	Total remuneration (CHF)	Other charges (EUR)*	Other charges (CHF)*
		Board fees (EUR)	– Nomination and Governance Committee (EUR)	– Audit Committee (EUR)	– Remuneration Committee (EUR)				
Mona Abbasi	Board Member	35,000	–	–	–	35,000	40,957	7,256	8,491
Anders Dahlvig	Board Member	35,000	10,000	–	–	45,000	52,659	9,315	10,900
Alexander af Jochnick	Chairman of the Board	70,000	10,000	10,000	10,000	100,000	117,020	20,732	24,261
Jonas af Jochnick	Board Member	35,000	–	–	–	35,000	40,957	–	–
Robert af Jochnick	Board Member	35,000	–	–	–	35,000	40,957	3,579	4,188
Anna Malmhake	Board Member	35,000	–	–	–	35,000	40,957	7,256	8,491
Christian Salamon**	Board Member	35,000	–	15,000	–	50,000	58,510	10,366	12,131
Karen Tobiasen	Board Member	35,000	–	10,000	10,000	55,000	64,361	–	–
						390,000	456,378	58,505	68,463

* Other charges comprises mandatory state social security contributions made by Oriflame where required.

** Audit Committee Chairman.

6.2 2016 Board remuneration

The below Directors and Committee fees cover the period from 1 January 2016 to 31 December 2016.

Board of Directors	Title	Membership fees				Total remuneration (EUR)	Total remuneration (CHF)	Other charges (EUR)*	Other charges (CHF)*
		Board fees (EUR)	– Nomination and Governance Committee (EUR)	– Audit Committee (EUR)	– Remuneration Committee (EUR)				
Mona Abbasi**	Board Member	21,899	–	–	–	21,899	23,517	4,829	5,186
Lilian Fossum Biner***	Board Member	10,855	–	3,743	1,873	16,470	17,687	3,586	3,850
Anders Dahlvig	Board Member	32,754	6,257	–	–	39,011	41,894	8,493	9,120
Alexander af Jochnick	Chairman of the Board	68,316	6,257	10,000	8,128	92,701	99,551	20,270	21,768
Jonas af Jochnick	Board Member	32,754	–	–	–	32,754	35,175	–	–
Robert af Jochnick	Board Member	32,754	–	–	–	32,754	35,175	7,161	7,690
Anna Malmhake	Board Member	32,754	–	–	–	32,754	35,175	7,161	7,690
Helle Kruse Nielsen***	Board Member	10,855	–	3,743	–	14,598	15,677	–	–
Christian Salamon****	Board Member	32,754	–	13,128	–	45,883	49,273	10,034	10,776
Karen Tobiasen**	Board Member	21,899	–	6,257	6,257	34,413	36,956	–	–
						363,237	390,080	61,534	66,080

* Other charges comprises mandatory state social security contributions made by Oriflame where required.

** Board member since 17 May 2016.

*** Board member until 17 May 2016.

**** Audit Committee Chairman.

7. REMUNERATION TO FORMER MEMBERS OF THE BOARD OF DIRECTORS AND OF THE EXECUTIVE MANAGEMENT

During 2017 and 2016, no remuneration has been paid to any former members of the Board of Directors or executive management.

8. DIRECTORSHIPS IN OTHER COMPANIES

The members of the Board of Directors may in accordance with the Articles of Association of the company hold no more than 10 board mandates in companies outside Oriflame. Such external engagements are listed on page 144–145 in the 2017 Annual Report.

The Corporate Committee members can hold no directorships in companies outside Oriflame without the prior approval of the Board of Directors, and in accordance with the Articles of Association of the company no more than 5 such board mandates, out of which only 1 can be in another listed company.

Any remuneration received for external board assignments exercised outside the role held with Oriflame is outside the scope of this report.

9. DIRECTOR'S AND EXECUTIVE MANAGEMENT'S SHAREHOLDING IN ORIFLAME

Directors, no. of shares*	31 Dec 2017	31 Dec 2016
R. af Jochnick and family**	5,433,283	5,433,283
J. af Jochnick and family	4,362,898	4,362,898
Alexander af Jochnick	520,000	520,000
Magnus Brännström	306,196	321,196
Christian Salamon	16,500	14,500
Anders Dahlvig	13,650	13,650
Karen Tobiasen	–	–
Mona Abbasi	–	–
Anna Malmhake	–	–

Corporate Committee, no. of shares*	31 Dec 2017	31 Dec 2016
Magnus Brännström	306,196	321,196
Jesper Martinsson	248,000	280,000
Gabriel Bennet	24,000	30,000

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

** Also includes the Alexander af Jochnick and family holding as per the IFRS definition of related parties.

10. LOANS AND CREDITS TO DIRECTORS OR OFFICERS

No loans and credits have been granted to current or former members of the Board of Directors or of the executive management.

11. OTHER REMUNERATION AND PAYMENTS TO RELATED

There have been no further remuneration or payments to members of the Board of Directors or of the executive management in 2017.

Payments to other related parties during 2017 are presented in note 22 in the Annual Report 2017.

All related party payments have been for services provided on commercially sound terms, priced at arms length' and to the benefit of Oriflame.



Statutory Auditor's Report

To the General Meeting of Oriflame Holding AG, Schaffhausen

Report on the Audit of the Compensation Report

We have audited the accompanying compensation report of Oriflame Holding AG for the year ended 31 December 2017. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance) contained in the chapter 4 and 6 on pages 77 to 80 of the compensation report.

Responsibility of the Board of Directors

The Board of Directors is responsible for the preparation and overall fair presentation of the compensation report in accordance with Swiss law and the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's Responsibility

Our responsibility is to express an opinion on the accompanying compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compensation report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the compensation report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the compensation report.

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

Opinion

In our opinion, the compensation report for the year ended 31 December 2017 of Oriflame Holding AG complies with Swiss law and articles 14–16 of the Ordinance.

KPMG AG

Hélène Béguin
Licensed Audit Expert
Auditor in Charge

Kathrin Schünke
Licensed Audit Expert

Zurich, 10 April 2018

Consolidated income statements

YEAR ENDED 31 DECEMBER

€'000	Note	2017	2016
Sales		1,363,111	1,249,382
Cost of sales		(368,547)	(366,467)
Gross profit		994,564	882,915
Other income	4	45,311	44,331
Selling and marketing expenses		(500,577)	(449,516)
Distribution and infrastructure		(95,384)	(94,056)
Administrative expenses	5, 6, 7, 8	(284,884)	(264,490)
Operating profit		159,030	119,184
Financial income	9	47,338	21,858
Financial expenses	9	(73,188)	(40,512)
Net financing costs		(25,850)	(18,654)
Net profit before income tax		133,180	100,530
Current tax	10	(47,848)	(39,228)
Deferred tax	10, 14	7,222	5,412
Total income tax expense	10	(40,626)	(33,816)
Net profit attributable to the owners of the company		92,554	66,714
Earnings per share, €	11		
Basic		1.66	1.20
Diluted		1.62	1.18

The attached notes on pages 88 to 127 form an integral part of the consolidated financial statements.

Consolidated statements of comprehensive income

YEAR ENDED 31 DECEMBER

€'000	Note	2017	2016
Net profit attributable to the owners of the company		92,554	66,714
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Revaluation reserve for property, plant & equipment		–	(230)
Remeasurements of net defined benefit liability, net of tax	25	(1,356)	(316)
Total items that will not be reclassified subsequently to profit or loss		(1,356)	(546)
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations	19	(13,964)	12,299
Effective portion of changes in fair value of cash flow hedges, net of tax	9	3,145	(2,719)
Total items that are or may be reclassified subsequently to profit or loss		(10,819)	9,580
Other comprehensive income for the year, net of tax		(12,175)	9,034
Total comprehensive income for the year attributable to the owners of the company		80,379	75,748

The attached notes on pages 88 to 127 form an integral part of the consolidated financial statements.

Consolidated statements of financial position

YEAR ENDED 31 DECEMBER

€'000	Note	2017	2016
Assets			
Property, plant and equipment	12	152,919	164,831
Intangible assets	13	14,595	13,849
Investment property		542	542
Deferred tax assets	14	31,136	25,702
Other long-term receivables		105	948
Total non-current assets		199,297	205,872
Inventories	15	165,509	166,833
Trade and other receivables	16	79,812	71,352
Tax receivables		8,810	7,647
Prepaid expenses		27,954	36,283
Derivative financial assets	26.3	29,682	72,338
Cash and cash equivalents	17	221,399	185,469
Total current assets		533,166	539,922
Total assets		732,463	745,794

€'000	Note	2017	2016
Equity			
Share capital	18	79,850	79,850
Treasury shares	18	(90)	(90)
Share premium	18	548,474	632,085
Reserves	19	(164,732)	(167,017)
Retained earnings		(241,906)	(333,104)
Total equity attributable to the owners of the company		221,596	211,724
Liabilities			
Interest-bearing loans	20	195,113	199,713
Other long-term liabilities		3,983	3,691
Net defined benefit liability	25	4,938	3,859
Deferred income		309	296
Deferred tax liabilities	14	2,502	2,869
Total non-current liabilities		206,845	210,428
Current portion of interest-bearing loans	20	48,477	66,836
Trade and other payables		91,514	95,292
Dividend payables		14,049	11,167
Deferred income		311	421
Tax payables		15,669	17,032
Accrued expenses	27	127,811	122,208
Derivative financial liabilities	26.3	2,624	5,458
Provisions	24	3,567	5,228
Total current liabilities		304,022	323,642
Total liabilities		510,867	534,070
Total equity and liabilities		732,463	745,794

The attached notes on pages 88 to 127 form an integral part of the consolidated financial statements.

Consolidated statements of changes in equity

YEAR ENDED 31 DECEMBER

€'000	Note	Attributable to the owners of the company								
		Share capital	Treasury shares	Share premium	Translation reserve	Hedging reserve	Other reserve	Total reserve	Retained earnings	Total equity
At 1 January 2016		79,788	(621)	654,381	(179,820)	(2,344)	3,489	(178,675)	(401,416)	153,457
Net profit		-	-	-	-	-	-	-	66,714	66,714
Other comprehensive income										
Remeasurements of net defined benefit liability, net of tax		-	-	-	-	-	-	-	(316)	(316)
Revaluation reserve		-	-	-	(230)	-	-	(230)		(230)
Foreign currency translation differences for foreign operations		-	-	-	12,299	-	-	12,299	-	12,299
Effective portion of changes in fair value of cash flow hedges, net of tax		-	-	-	-	(2,719)	-	(2,719)	-	(2,719)
Total other comprehensive income for the year, net of income tax		-	-	-	12,069	(2,719)	-	9,350	(316)	9,034
Total comprehensive income for the year, net of income tax		-	-	-	12,069	(2,719)	-	9,350	66,398	75,748
Issue of ordinary shares in relation to share incentive plan	18	62	-	-	-	-	(862)	(862)	800	-
Treasury shares used in relation to share incentive plan	18	-	541	-	-	-	(1,655)	(1,655)	1,114	-
Purchase of treasury shares	18	-	(10)	-	-	-	-	-	-	(10)
Share incentive plan	21	-	-	-	-	-	4,825	4,825	-	4,825
Dividends	19	-	-	(22,296)	-	-	-	-	-	(22,296)
Total contributions and distributions		62	531	(22,296)	-	-	2,308	2,308	1,914	(17,481)
At 31 December 2016		79,850	(90)	632,085	(167,751)	(5,063)	5,797	(167,017)	(333,104)	211,724
At 1 January 2017		79,850	(90)	632,085	(167,751)	(5,063)	5,797	(167,017)	(333,104)	211,724
Net profit		-	-	-	-	-	-	-	92,554	92,554
Other comprehensive income										
Remeasurements of net defined benefit liability, net of tax		-	-	-	-	-	-	-	(1,356)	(1,356)
Foreign currency translation differences for foreign operations		-	-	-	(13,964)	-	-	(13,964)	-	(13,964)
Effective portion of changes in fair value of cash flow hedges, net of tax		-	-	-	-	3,145	-	3,145	-	3,145
Total other comprehensive income for the year, net of income tax		-	-	-	(13,964)	3,145	-	(10,819)	(1,356)	(12,175)
Total comprehensive income for the period		-	-	-	(13,964)	3,145	-	(10,819)	91,198	80,379
Share incentive plan	21	-	-	-	-	-	13,104	13,104	-	13,104
Dividends	19	-	-	(83,611)	-	-	-	-	-	(83,611)
Total contributions and distributions		-	-	(83,611)	-	-	13,104	13,104	-	(70,507)
At 31 December 2017		79,850	(90)	548,474	(181,715)	(1,918)	18,901	(164,732)	(241,906)	221,596

The attached notes on pages 88 to 127 form an integral part of the consolidated financial statements.

Consolidated statements of cash flows

YEAR ENDED 31 DECEMBER

€'000	Note	2017	2016	€'000	Note	2017	2016
Operating activities				Cash generated from operations		178,011	165,548
Net profit before income tax		133,180	100,530	Interest received		14,528	18,497
Adjustments for:				Interest and bank charges paid		(21,689)	(26,533)
Depreciation of property, plant and equipment	8, 12	17,657	18,260	Income taxes paid		(48,175)	(44,388)
Amortisation of intangible assets	8, 13	1,600	2,883	Cash flow from operating activities		122,675	113,124
Impairment	12, 13	415	3,013				
Change in fair value of borrowings and derivatives financial instruments	9	(142)	3,580	Investing activities			
Deferred income		(91)	(482)	Proceeds on sale of property, plant and equipment, intangible assets		1,998	1,305
Share incentive plan		13,104	4,825	Purchases of property, plant and equipment		(15,560)	(11,288)
Unrealised exchange rate differences		5,896	(16,000)	Purchases of intangible assets		(2,254)	(1,877)
Profit on disposal of property, plant and equipment, intangible assets	12	(920)	(847)	Cash flow used in investing activities		(15,816)	(11,860)
Financial income	9	(13,268)	(19,870)				
Financial expenses	9	20,509	27,067	Financing activities			
Operating profit before changes in working capital and provisions		177,940	122,959	Proceeds from borrowings	20	105,000	-
Increase in trade and other receivables, prepaid expenses and derivatives financial assets		(989)	(9,076)	Repayments of borrowings	20	(86,471)	(72,013)
(Increase)/Decrease in inventories		(6,319)	16,363	Acquisition of own shares		-	(10)
Increase in trade and other payables, accrued expenses and derivatives financial liabilities		9,313	38,487	Decrease of finance lease liabilities		-	(4)
Decrease in provisions		(1,934)	(3,185)	Dividends paid	20	(80,760)	(11,130)
Cash generated from operations		178,011	165,548	Cash flow used in financing activities		(62,231)	(83,157)
				Change in cash and cash equivalents		44,628	18,107
				Cash and cash equivalents at the beginning of the year		185,365	176,384
				net of bank overdrafts			
				Effect of exchange rate fluctuations on cash held		(8,648)	(9,126)
				Cash and cash equivalents at the end of the year net of bank overdrafts	17	221,345	185,365

The attached notes on pages 88 to 127 form an integral part of the consolidated financial statements.

Notes to the consolidated financial statements

NOTE 1 • STATUS AND PRINCIPAL ACTIVITY

Oriflame Holding AG (“OHAG” or the “company”) is a holding company incorporated in Switzerland and registered at Bleicheplatz 3, CH-8200 Schaffhausen. 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 2017 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 Holding AG have been prepared by management in accordance with International Financial Reporting Standards (IFRS) and the interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”). The company prepared STATUTORY FINANCIAL STATEMENTS in accordance with Swiss law. The financial statements were authorised for issue by the Board of Directors on 10 April 2018.

(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 and the net defined benefit liability that is stated at fair value of plan assets less present value of the defined benefit obligation.

(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 14 – utilisation of tax losses
- Note 15 – inventory reserves
- Note 21 – measurement of share-based payments
- Note 24 – provisions and contingencies
- Note 25 – pensions
- Note 26 – valuation of financial instruments.

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 2017, Oriflame Holding AG adopted amendments to standards which became effective 1 January 2017. These new accounting standards had no material effect on the consolidated financial statements.

(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 controlled by the Group.

The Group controls a subsidiary when it is exposed, or has rights to, variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. 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.

Note 2 continued

(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 into the functional currency 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 the functional currency 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. 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 Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, investing and financing activities. The Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives 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 in other comprehensive income. 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 reclassified to 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 other comprehensive income 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 in other comprehensive income.

(j) Sales revenue and other income

(i) Sale of goods

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 been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due.

(ii) Loyalty programmes

Revenue is allocated between the loyalty programmes and the other components of sale. The amount allocated to loyalty programmes is deferred, and is recognised as revenue when the Group has fulfilled its obligation to supply the free or discounted products under the terms of the programmes or when it is no longer probable that the points under the programmes will be redeemed.

(iii) Other income

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.

For defined benefit pension plans, the net defined benefit liability represents the present value of the defined benefit obligation less the fair value of plan assets. It is calculated by independent actuaries using the projected unit credit method. The costs related to the defined benefit plans are recognised in the income statement as staff cost in administrative expenses. They cover service cost (current and past service cost, gains and losses arising from settlement), administrative costs and net interest expense. Remeasurements of the net defined benefit liability are reported in other comprehensive income. They comprise experience adjustments (differences between previous actuarial assumptions and what has actually occurred), changes in actuarial assumptions and the actual return on plan assets, excluding interest income.

(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, including penalties, based on the facts known at the balance sheet date in each individual country. Any interests are accrued in the statement of financial position and are recognised as a finance expense in the income statement. 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.

(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, will generate probable future economic benefits and if the Group has sufficient resources to complete the development and to use it or to sell it. The capitalised expenditure, which is reliably measured, includes cost for own staff and an appropriate proportion of identifiable overheads. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

(v) Amortisation

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

(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 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 or 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.

(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 Group Bank overdrafts that are repayable 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.

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

(ii) *Loans at fair value designated as such upon initial recognition*
Interest-bearing loans at fair value designated as such upon initial recognition are recognised initially at fair value. 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 Group 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) *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*

In addition to the above recognition criteria, a provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan including the timing, the part of business concerned, the principal locations affected, an approximate number of employees impacted and the expenditures that will be undertaken. The restructuring should have been either started to be implemented or its main features should have been announced to those affected by it. Future operating losses are not provided for.

(x) *Expenses*

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

(ii) *Finance lease payments*

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

(iii) *Net financing costs*

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, net foreign

exchange gains or losses, gains and losses on hedging instruments that are recognised in the consolidated income statements and gains and losses on derivative financial assets and liabilities, bank charges and changes in fair value of financial assets and liabilities.

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

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

(y) Segment reporting

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

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses. Operating segment’s operating results are reviewed regularly by the Corporate Committee to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the Corporate Committee include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate and overhead assets, liabilities and

expenses not allocated to the operating segments. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill. In the framework of the entity-wide disclosures regarding “information about geographical areas”, the Management is of the opinion that materiality threshold is 10 percent for Group purposes.

(z) Hyperinflation accounting

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

(aa) New standards and interpretations not yet adopted

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

New Standards or Interpretations		Effective date (IASB)	Planned application by the Group in reporting year
IFRS 9 Financial Instruments	1)	1 January 2018	Reporting year 2018
IFRS 15 Revenue from Contracts with Customers	1)	1 January 2018	Reporting year 2018
IFRS 16 Leases	1)	1 January 2019	Reporting year 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	2)	1 January 2018	Reporting year 2018
IFRIC 23 Uncertainty over Income Tax Treatments	3)	1 January 2019	Reporting year 2019
Revisions and amendments of Standards and Interpretations			
Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	2)	1 January 2018	Reporting year 2018

1) Estimated impact of the adoption of IFRS 9, IFRS 15 and IFRS 16

From 1st January 2018, IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers have become effective. In addition, the Group has decided to early apply IFRS 16 Leases at the same time as IFRS 15. The impact from the initial application of these standards on the consolidated financial statement has been assessed by the Group. It results in the following estimated impact in the balance sheet as at 1st January 2018.

Here are the estimated adjustments due to the adoption of IFRS 16 and IFRS 15:

€ millions	As reported at 31 December 2017	Estimated adjustments due to adoption of IFRS 16	Estimated adjustments due to adoption of IFRS 15	Estimated adjusted opening balances at 1 January 2018
Total assets	732.5	87.7	(11.6)	808.6
Equity – retained earnings	221.6	(6.2)	(23.7)	191.7
Liabilities	206.9	93.9	12.1	312.9
Total liabilities	732.5	87.7	(11.6)	808.6

No figures are reported for the initial adoption of IFRS 9 as the Group does not expect any significant impact on the consolidated financial statements.

IFRS 15

In May 2014 the IASB replaced the revenue recognition initially provided in the standards IAS 11 Accounting for Construction Contracts and IAS 18 Revenue and in the corresponding interpretations by IFRS 15 Revenue from Contracts with Customers. This new standard provides new principles for recognising revenue from contracts with customers.

With the introduction of IFRS 15, a new model for revenue recognition based on the transfer of control is implemented. In other words, revenue is recognised when a customer obtains control of a good or service, when the Consultant has the ability to direct the use of and obtain the benefits from the good or service.

Additionally, the transaction price of the products needs to be allocated to the performance obligations in the contract. A performance obligation is a promise in a contract to transfer either a good or service or a series of distinct goods or services to the customer. For the Group, a performance obligation besides transferring the goods to the Consultants includes incentives provided to the Consultants in order to boost the sales.

The application of IFRS 15 is expected to impact the income statement at different levels. Sales may be slightly impacted by a low-single percentage digit in absolute terms due to the impli-

cation of IFRS 15. As the company will apply a control approach with regards to when sales are recognised instead of the risk and reward approach as used in the past. In addition, all performance obligations within a contract have to be considered and may result in deferred recognition of revenue. Sales and the gross margin will be impacted by reclassifications of costs, currently presented in “selling and marketing expenses”, where applicable under the new IFRS 15 treatment. This is expected to result in a total negative gross margin impact of a mid single percentage digit. The above mentioned ongoing reclassification of costs (i.e. incentives to registered actives) will have a corresponding positive impact on the operating margin. The Group will apply the cumulative effect method for the transition. IFRS 15 will not have a material impact on the consolidated results or financial position, the impact at the end of the period is compensated by a similar effect at the start of the year.

IFRS 16

In January 2016 the IASB issued IFRS 16 Leases which replaces IAS 17 Leases, IFRIC 4, SIC-15 and SIC-27. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. This standard introduces a single lessee accounting model for which all leases are recognised in the balance sheet with a right-of-use asset, being the right to use the underlying asset, and with a lease liability representing the present value of the instal-

ments during the lease period. Low value assets and leases with a term of 12 months or less are excluded from this new standard and continue to be booked directly in the income statement.

The application of IFRS 16 requires a change in the presentation of lease expenses in the income statement whereas the straight-line operating lease expense recognition will change to the recognition of a depreciation on the right-of-use asset and interest expense on lease liabilities.

As a consequence, the implementation of IFRS 16 positively impacts the operating margin with a minor single digit percentage (around or below 100 bps) due to the elimination of operation leasing expenses which are mainly compensated by depreciation of the right-of-use assets. In addition, the finance costs will increase due to the recognition of interest expenses on the finance lease liabilities. During the first year, it will result in a net negative impact on the net profit margin before tax of a minor single percentage digit (around or below 100 bps). The new standard will also impact the deferred tax calculation for which the impact has not yet been assessed.

The Group has implements IFRS 16 based on the modified retrospective which allows for the transfer of all operational leases from 2017 into financial leases in 2018. This results in the creation of Right-of-Use Assets, new lease liabilities as well as has an impact on the retained earnings (due to the incremental borrowing option). The Right-of Use assets mainly covers offices rent and other leases such as cars, equipment and warehouse.

IFRS 9

IFRS 9 Financial Instruments was issued in July 2014 in order to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement.

The new standard covers three areas: classification and measurement, impairment and hedge accounting.

Classification and measurement: a new classification and measurement approach is proposed for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. The new classification on financial assets will have no impact on the Group.

Impairment: the "incurred loss" model from IAS 39 is replaced with a forward-looking expected credit loss (ECL) model. Based on the current nature of the financial assets in the balance sheet and assuming that it will not change significantly in the future, the Group does not expect any material change in the impairment charge in the income statement.

Hedge accounting: Hedge accounting on IFRS 9 is an accounting policy for which the Group can decide whether it would like to apply the new hedge accounting or it would like to keep the requirements of IAS 39. The Group has chosen to apply the new requirements of IFRS 9.

The purpose of the hedge accounting under IFRS 9 is to reflect the risk management of the Group in the financial statements by matching gains or losses on hedging instruments with losses or gains on the risk exposure they hedge (e.g. foreign currency risk and interest rate risk). The main impact on the application of IFRS 9 hedge accounting for the group is on the hedge documentation and disclosure but does not have currently any impact in the financial statements.

2) No impact or no significant impact is expected on the consolidated financial statements.

3) The impact has not been assessed yet.

NOTE 3 • SEGMENT REPORTING

Operating segments

The Group has five main reportable segments, which represent the structure of financial information reviewed by the Corporate Committee, consist of the following: Latin America, Europe & Africa, CIS, Asia & Turkey and Manufacturing.

The purpose of the Group is to sell cosmetics within the above organisation. The Group sales consist mainly of sales of Colour cosmetics, Skin care, Personal & Hair Care, Fragrances and Accessories & Wellness products. The segment Manufacturing is producing mainly for the Group. Smaller quantities are produced for third parties as well. "All other segments" includes mail order business, 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 2017

€'000	Latin America	Europe & Africa	CIS	Asia & Turkey	Manufacturing	All other segments	Total segments	Unallocated items	Total
Sales	157,508	324,734	356,759	510,249	6,943	6,918	1,363,111	-	1,363,111
Operating Profit	20,805	45,222	45,355	110,276	9,155	2,066	232,879	(73,849)	159,030
Net financing costs	-	-	-	-	-	-	-	-	(25,850)
Net profit before income tax	-	-	-	-	-	-	-	-	133,180
Total income tax expense	-	-	-	-	-	-	-	-	(40,626)
Net profit	-	-	-	-	-	-	-	-	92,554
Capital Expenditure	(892)	(1,509)	(1,571)	(2,133)	(5,665)	-	(11,770)	(6,044)	(17,814)
Depreciation & Amortisation	(1,099)	(1,601)	(2,977)	(2,068)	(7,657)	-	(15,402)	(3,855)	(19,257)
Impairment	-	(68)	-	-	-	-	(68)	(347)	(415)
Goodwill	-	1,053	-	4,345	-	-	5,398	-	5,398

As per 31 December 2016

€'000	Latin America	Europe & Africa	CIS	Asia & Turkey	Manufacturing	All other segments	Total segments	Unallocated items	Total
Sales	148,620	329,370	325,647	434,333	3,796	7,616	1,249,382	-	1,249,382
Operating Profit	21,703	49,927	31,919	83,094	9,140	2,188	197,971	(78,787)	119,184
Net financing costs	-	-	-	-	-	-	-	-	(18,654)
Net profit before income tax	-	-	-	-	-	-	-	-	100,530
Total income tax expense	-	-	-	-	-	-	-	-	(33,816)
Net profit	-	-	-	-	-	-	-	-	66,714
Capital Expenditure	(1,147)	(1,244)	(2,107)	(2,253)	(2,927)	-	(9,678)	(3,487)	(13,165)
Depreciation & Amortisation	(1,119)	(2,115)	(2,794)	(2,154)	(5,838)	-	(14,020)	(7,123)	(21,143)
Impairment	-	-	-	(203)	(180)	-	(383)	(2,630)	(3,013)
Goodwill	-	1,053	-	4,345	-	-	5,398	-	5,398

Sales by major countries and the country of domicile of the company

€ million	2017	2016
Russia	241.5	210.8
China	190.4	139.1
Switzerland	0.3	0.4
Other	930.9	899.1
Total	1,363.1	1,249.4

A major country is defined as one with total sales greater than 10 percent of consolidated sales. The revenue information above is based on the sales performed by each location.

Non-current assets by major countries and the country of domicile of the company

€ million	2017	2016
Russia	92.9	104.7
Poland	22.1	20.0
Switzerland	4.1	0.8
Other	49.0	53.7
Total	168.1	179.2

Non-current assets for segment reporting include property, plant and equipment, investment property and intangible assets. They are based on the geographic location of the assets.

A major country is defined as one with total Non-current assets greater than 10 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	2017	2016
Skin Care	381.7	337.3
Colour Cosmetics	286.2	287.3
Fragrances	259.0	249.9
Personal and Hair Care	218.1	199.9
Accessories	68.2	75.0
Wellness	149.9	100.0
Total	1,363.1	1,249.4

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	2017	2016
Freight income	28,560	27,547
Printing income	15,718	16,089
Rental income	298	290
Other	735	405
Other income	45,311	44,331

NOTE 5 • EMPLOYEE BENEFIT EXPENSE

€'000	2017	2016
Salaries and wages	135,160	132,147
Social security contributions	28,780	25,199
Pension expenses	7,002	6,341
Equity settled transactions	13,104	4,825
	184,046	168,512

The average number of full-time equivalents in 2017 was 6,230 (6,233).

NOTE 6 • AUDITORS' REMUNERATION

Fees billed to the company and its subsidiaries by KPMG AG, Zurich, and other member firms of the KPMG network during the year are as follows (excluding VAT):

€'000	2017	2016
Remuneration for the audit of annual and consolidated accounts	1,774	1,870
Remuneration for tax advisory services	471	367
Remuneration for other services	103	313
	2,348	2,550

NOTE 7 • RESEARCH AND DEVELOPMENT

€'000	2017	2016
Research and development	11,868	10,653

NOTE 8 • DEPRECIATION AND AMORTISATION

€'000	2017	2016
Depreciation	17,657	18,260
– in Cost of sales	8,396	8,866
– in administrative expenses	9,261	9,394
Amortisation	1,600	2,883
– in Cost of sales	162	108
– in administrative expenses	1,438	2,775
Depreciation and amortisation expenses	19,257	21,143

NOTE 9 • FINANCIAL INCOME AND EXPENSES

€'000	2017	2016
Interest income on bank deposits and receivables	1,966	4,789
Interest received on finance lease receivable	23	46
Cross currency interest rate swaps income	11,279	15,035
Change in fair value of financial assets and liabilities at fair value held for trading:		
– Forward exchange rate contracts gain	2,363	–
Change in fair value of financial assets and liabilities at fair value designated as such upon initial recognition:		
– USD loan fair value gain	31,707	1,988
Total financial income	47,338	21,858

€'000	2017	2016
Bank charges and interest expense on loans carried at amortised cost	(6,934)	(9,201)
Interest expense on loan carried at fair value	(7,536)	(10,631)
Cross currency interest rate swaps expense	(6,039)	(7,234)
Change in fair value of financial assets and liabilities at fair value held for trading:		
– Forward exchange rate contracts loss	(998)	(1,837)
– Interest rate swaps loss	(176)	–
– Interest rate caps loss	(14)	(748)
– Cross currency interest rate swaps loss	(32,740)	(2,984)
Foreign exchange losses, net	(18,751)	(7,877)
Total financial expenses	(73,188)	(40,512)
Net financing costs	(25,850)	(18,654)

Recognised in other comprehensive income €'000	2017	2016
Changes in fair value of cash flow hedges	657	(2,452)
Tax on changes in fair value of cash flow hedges	141	166
Changes in fair value of cash flow hedges reclassified to profit or loss:		
– Cost of sales	3,390	(474)
– Administrative expenses	(819)	–
– Current tax	(224)	41
Effective portion of changes in fair value of cash flow hedges, net of tax	3,145	(2,719)

NOTE 10 • INCOME TAX EXPENSE

Recognised in the consolidated income statements		
€'000	2017	2016
Current year tax expense	48,946	39,179
Change in estimate related to prior years	(1,098)	49
Current tax expense	47,848	39,228
Deferred tax expense/(income):		
– Origination and reversal of temporary differences	(5,602)	(17,021)
– Changes in tax rates	(83)	(48)
– Utilisation of tax losses carried forward	417	4,761
– (Recognition)/Derecognition of previously unrecognised deductible temporary differences	(780)	8,747
– Recognition of previously unrecognised tax losses carried forward	(1,174)	(1,851)
Deferred tax	(7,222)	(5,412)
Total income tax expense in the consolidated income statements	40,626	33,816
Reconciliation of effective tax rate, €'000		
	2017	2016
Net profit before income tax	133,180	100,530
Average applicable tax rate, %*	20.0	24.6
Adjustment to tax expenses, %		
	2017	2016
Non-deductible expenses	4.8	4.8
Utilisation of previously unrecognised tax losses carried forward	(1.7)	(1.1)
Recognition of previously unrecognised tax losses carried forward	(0.9)	(1.8)
Recognition of previously unrecognised (derecognition of previously recognised) deductible temporary differences	(0.6)	(0.1)
Increase of tax provision	0.9	1.0
Withholding taxes	5.1	4.2
Other taxes	0.5	0.6
Change in estimate related to prior years	1.0	0.7
Current-year losses for which no deferred tax asset is recognised	1.4	0.7
Effective tax rate	30.5	33.6

* Average applicable tax rate is calculated as weighted average from separate countries tax reconciliations using the domestic tax rate in each individual jurisdiction. The tax rates of the Group's subsidiaries vary between 0 percent and 35 percent. Tax at applicable tax rate 20,0% (24,6%) decreased due to slightly different country mix and increased weight of low tax jurisdictions in Oriflame growth markets.

NOTE 11 • EARNINGS PER SHARE

(a) Basic

Earnings per share are based on the net profit attributable to ordinary shareholders of €92,554k (€66,714k) and the weighted average number of shares outstanding during the year. Treasury shares are deducted in calculating the weighted average number of shares outstanding.

Number of shares	2017	2016
Weighted average number of shares outstanding, number of shares	55,740,805	55,691,352
Basic earnings per share, EUR	1.66	1.20

(b) Diluted

Diluted earnings per share are calculated taking into account the potential dilutive effect of the achievement share options granted under the share incentive scheme (see note 21).

Number of shares	2017	2016
Weighted average number of shares outstanding, number of shares	57,217,925	56,537,639
Diluted earnings per share, EUR	1.62	1.18

NOTE 12 • PROPERTY, PLANT AND EQUIPMENT

	Freehold land & buildings	Improvements to leasehold property	Plant & machinery	Furniture & equipment	Computer equipment	Motor vehicles	Under construction	Total
Cost								
At 31 December 2015	120,573	32,579	98,239	22,942	26,738	5,143	–	306,214
Additions	390	2,800	3,926	975	2,533	664	–	11,288
Disposals	(514)	(2,355)	(851)	(1,972)	(2,757)	(633)	–	(9,082)
Translation	17,933	186	3,684	11	683	(77)	–	22,420
At 31 December 2016	138,382	33,210	104,998	21,956	27,197	5,097	–	330,840
Additions	1,890	3,840	3,556	2,694	1,505	570	1,505	15,560
Disposals	(633)	(2,027)	(4,608)	(1,306)	(2,298)	(697)	–	(11,569)
Translation	(6,783)	(1,761)	(1,886)	(1,104)	(1,367)	(244)	8	(13,137)
At 31 December 2017	132,856	33,262	102,060	22,240	25,037	4,726	1,513	321,694
Accumulated depreciation and impairment								
At 31 December 2015	20,989	21,329	67,567	18,373	21,529	3,289	–	153,076
Charge for the year	3,298	3,126	6,690	1,861	2,585	700	–	18,260
Impairment	180	23	238	50	49	–	–	540
Disposals	(368)	(2,269)	(811)	(1,918)	(2,661)	(597)	–	(8,624)
Translation	1,193	30	1,217	(8)	363	(38)	–	2,757
At 31 December 2016	25,292	22,239	74,901	18,358	21,865	3,354	–	166,009
Charge for the year	3,539	3,394	5,915	1,663	2,514	632	–	17,657
Impairment	68	–	347	–	–	–	–	415
Disposals	(482)	(1,924)	(3,950)	(1,287)	(2,267)	(581)	–	(10,491)
Translation	(663)	(1,278)	(862)	(860)	(995)	(157)	–	(4,815)
At 31 December 2017	27,754	22,431	76,351	17,874	21,117	3,248	–	168,775
Net Book Value								
At 31 December 2015	99,584	11,250	30,672	4,569	5,209	1,854	–	153,138
At 31 December 2016	113,090	10,971	30,097	3,598	5,332	1,743	–	164,831
At 31 December 2017	105,102	10,831	25,709	4,366	3,920	1,478	1,513	152,919

Property, plant and equipment under construction

Assets under construction cover the construction of new manufacturing facilities in existing premises in order to extend the production of certain products. Additional investments will be made until the project is finalised and it is expected to start to the production in the second part of 2018. This project should be fully finalised by 2019.

Impairment €'000

During 2017, the Group recognised an impairment loss totalling €415 (€540) mainly coming from plant and machinery which was no longer used and on freehold land & buildings whose carrying amount was higher than the recoverable value.

Disposals

In 2017, the Group sold property, plant and equipment with a net book value of €1.0 million (€0.5 million) resulting in a profit on disposal of property, plant and equipment of €0.9 million (€0.8 million) booked as Administrative expenses in the income statement.

Contractual commitment

At year-end 2017, there is no contractual commitment (nil).

NOTE 13 • INTANGIBLE ASSETS

	Software	Trademarks	Property rights	Goodwill	Under development	Total
Cost						
At 31 December 2015	39,913	1,696	3,330	10,673	513	56,125
Additions	1,626	251	-	-	-	1,877
Disposals	(8,232)	-	-	-	-	(8,232)
Re-classification	509	-	-	-	(509)	-
Translation	674	-	-	-	(4)	670
At 31 December 2016	34,490	1,947	3,330	10,673	-	50,440
Additions	212	132	-	-	1,910	2,254
Disposals	(1,400)	-	-	-	-	(1,400)
Translation	(457)	-	-	-	61	(396)
At 31 December 2017	32,845	2,079	3,330	10,673	1,971	50,898
Accumulated amortisation and impairmentt						
At 31 December 2015	32,420	1,044	30	5,275	-	38,769
Charge for the year	2,748	135	-	-	-	2,883
Impairment	2,473	-	-	-	-	2,473
Disposals	(8,232)	-	-	-	-	(8,232)
Translation	698	-	-	-	-	698
At 31 December 2016	30,107	1,179	30	5,275	-	36,591
Charge for the year	1,454	146	-	-	-	1,600
Disposals	(1,400)	-	-	-	-	(1,400)
Translation	(488)	-	-	-	-	(488)
At 31 December 2017	29,673	1,325	30	5,275	-	36,303
Net Book Value						
At 31 December 2015	7,493	652	3,300	5,398	513	17,356
At 31 December 2016	4,383	768	3,300	5,398	-	13,849
At 31 December 2017	3,172	754	3,300	5,398	1,971	14,595

Goodwill

Goodwill value results from two acquisitions performed in Portugal in 1997 and in India in 2001. Upon issuance of IFRS3 - Business combinations, the company discontinued amortisation of existing goodwill and proceed to an impairment test once per year. For this purpose, goodwill is allocated by geographical segment as reported in note 3. At reporting date, the goodwill was tested for impairment with 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.

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 are for Portugal 3 percent (3 percent) and India 11 percent (13 percent).

Terminal 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 2017 and 2016.

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 15 percent (15 percent).

Terminal 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 2017 and 2016.

Under Development

Intangible assets under development represent capitalised costs for software system replacement. It will be operational from 2018 and will be amortised as soon as it is available for use.

Impairment €'000

Following the partnership concluded in 2016 with IBM to support digital transformation within IT and financial services, an impairment of €2,473 was booked on software. These intangible assets will be not used anymore due to the agreement with IBM and hence had a recoverable amount of zero at year-end 2016.

NOTE 14 • DEFERRED TAXATION

Deferred tax assets and liabilities at 31 December 2017 and 2016 are attributable to the items detailed in the table below:

€'000	2017			2016			Movement
	Assets	Liabilities	Net	Assets	Liabilities	Net	
Property, plant and equipment & intangible assets	2,386	(3,390)	(1,004)	2,742	(3,304)	(562)	(442)
Inventories	12,401	(1,239)	11,162	8,231	(1,392)	6,839	4,323
Trade and other receivables	2,163	(1,367)	796	5,427	(795)	4,632	(3,836)
Accruals	8,028	(9,117)	(1,089)	7,200	(7,072)	128	(1,217)
Other	7,045	(461)	6,584	6,048	(488)	5,560	1,024
Tax losses carried forward	12,185	–	12,185	6,236	–	6,236	5,949
Tax assets/(liabilities) before set off	44,208	(15,574)	28,634	35,884	(13,051)	22,833	5,801
Set off of tax	(13,072)	13,072	–	(10,182)	10,182	–	–
Net tax assets /liabilities	31,136	(2,502)	28,634	25,702	(2,869)	22,833	

Recognised in other comprehensive income in relation to cash flow hedges	(141)
Recognised in other comprehensive income in relation to re-measurement of the net defined benefit liability	(182)
Translation difference	1,744
Deferred tax income	7,222

Recognition of deferred tax assets

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

Unrecognised deferred tax assets

Deferred tax assets on tax losses have not been recognised:

€'000	2017	2016
Tax losses*	127,151	164,270

* Of which € 3,5 million (€ 2 million) expire within one year, € 14,5 million (€ 15 million) expire between one and five years and € 109,2 million (€ 147,3 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.

Group recognized additional amount of Deferred Tax Assets on available losses carry forward in Russia of € 1.2 million. Although entity has suffered a loss in the current and preceding periods the forecasted future taxable profits exist in excess of the profits arising from the reversal of existing taxable temporary differences

NOTE 15 • INVENTORIES

€'000	2017	2016
Raw materials	13,922	16,318
Work in progress	62	352
Finished goods	169,527	160,128
Other inventories	12,104	16,765
Inventory reserves	(30,106)	(26,730)
Total inventory	165,509	166,833

During 2017 the Group wrote down €6.1 million (€6.8 million) inventory mainly due to obsolescence.

The carrying amount of inventories carried at fair value less cost to sell was €8.3 million (€7.3 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 2017 were €368.5 million (€366.5 million).

NOTE 16 • TRADE AND OTHER RECEIVABLES

€'000	2017	2016
Trade receivables	45,599	45,340
Other receivables	34,213	26,012
Trade and other receivables	79,812	71,352

Exposure to credit risk

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

€'000	2017	2016
Latin America	12,572	14,016
Europe & Africa	16,547	14,800
CIS	5,869	6,243
Turkey & Asia	10,611	10,281
	45,599	45,340

The ageing of trade receivables at the reporting date was:

€'000	GrossImpairment 2017 2017		GrossImpairment 2016 2016	
Not past due	40,276	1,109	39,119	635
Past due 21 – 180 days	9,705	3,421	9,847	3,915
Past due 181 – 360 days	3,255	3,231	3,587	3,177
Past due 12 – 18 months	4,651	4,600	4,578	4,069
Past due > 18 months	17,456	17,383	15,903	15,898
	75,343	29,744	73,034	27,694

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	2017	2016
Balance at 1st of January	27,694	24,679
Bad debts allowance recognised in the income statement	6,496	5,875
Utilisation of the bad debts allowance	(4,446)	(2,860)
Balance at 31 December	29,744	27,694

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 17 • 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	2017	2016
Cash	202,070	182,444
Short term deposits	19,329	3,025
Total cash	221,399	185,469
Bank overdrafts	(54)	(104)
Total	221,345	185,365

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in note 26.

NOTE 18 • SHARE CAPITAL AND SHARE PREMIUM**Share Capital**

Oriflame Holding AG ('OHAG'), the parent company has one class of share capital. In addition to the shares already issued and presented below, the Board of Directors shall be authorized to increase fully or partially the share capital in an amount not to exceed CHF 8,355,000 through the issuance of up to 5,570,000 fully paid-in shares with a nominal value of CHF 1.50 per share by not later than 9 May 2019.

For the purpose of the Share Incentive Plan, the share capital of OHAG shall be increased by a maximum aggregate amount of CHF 3,552,897 through the issuance of a maximum of 2,368,598 fully paid-in shares with a nominal value of CHF 1.50 per share.

All shares have a par value of CHF 1.50 and have equal rights to dividends. Shareholders are entitled to one vote per share at annual and general meetings of the company. A reconciliation of the movements in share capital is detailed below:

	No. of shares	€'000
SHARE CAPITAL		
Balance 1 January 2016	55,708,563	79,788
Issue of ordinary shares in relation to share incentive plan (i a)	(45,402)	62
Balance 31 December 2016	55,753,965	79,850
Balance 31 December 2017	55,753,965	79,850
TREASURY SHARES		
Balance 1 January 2016	100,000	621
Treasury shares used in relation to share incentive plan (i b)	(87,156)	(541)
Purchase of treasury shares	316	10
Balance 31 December 2016	13,160	90
Balance 31 December 2017	13,160	90

(i) During May 2016, a total of 132,558 achievement shares were delivered to participants of the 2013 share incentive and retention plan (SIP). The settlement was done through:

- an increase of share capital for 45,402 shares with a par value of CHF 1.50 under the company's conditional share capital and
- with the use of 87,156 existing treasury shares

Share Premium

The share premium represents the difference between the nominal value and the issued value of the shares. The dividends declared during 2016 and 2017 were recognised from the share premium.

NOTE 19 • RESERVES**(i) Legal reserve**

The company is required by Swiss law to appropriate to a legal reserve at least 5 percent of the annual profit until the reserve equals 20 percent of the paid-up share capital.

(ii) Translation reserve

Included in the translation reserve are the following movements in 2017:

- (a) Exchange loss of € 1.3 million (€10.4 million gain in 2016) arising on long term inter-company debt of an investment nature, and;
- (b) A foreign exchange loss of € 12.7 million (€1.9 million gain in 2016) arising from the translation of financial statements of foreign subsidiaries.

(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 2016, the AGM of the company approved a dividend of €0.40 per share, as proposed by the Board of Directors, i.e. €22.3 million in total.

In May 2017, the AGM of the company approved a dividend of €1.50 per share, of which €1.00 per share is to be considered as ordinary and €0.50 to be considered as extra dividend, as proposed by the Board of Directors, i.e. €83.6 million in total. The payment of the dividend was distributed out of the capital contribution reserve and paid in four instalments as follows: First instalment of €0.75 per share was paid in May 2017, second instalment of €0.25 per share was paid in August 2017, third instalment of €0.25 per share was paid in November 2017 and the fourth instalment was paid in February 2018 and is recognised as a dividend payable in the consolidated statement of financial position as at 31 December 2017.

The total amount of dividend consists of the total of the shares issued less the acquired treasury shares, which are not eligible for a dividend, at the date of the 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 20 • INTEREST-BEARING LOANS

€'000	2017	2016
Non-current liabilities		
Loans	195,113	199,713
	195,113	199,713
Current liabilities		
Short-term loans	48,423	66,732
Bank overdrafts	54	104
	48,477	66,836

On 8 September 2017, the Group signed a €160 million five-year revolving credit facility, replacing the €110 million five-year facility signed on 27 April 2015. The agreement provides that utilizations may be in Euros or other freely convertible currencies, as agreed. It contains two one-year extension possibilities at the lenders' discretion. The interest payable is calculated at the relevant inter-bank rate plus the applicable margin.

On 29 June 2017, the Group successfully completed the issuance of €70 million private placement notes. The notes have a final maturity in 2029 and will be linearly amortised starting from 2025. Interest is fixed and paid semi-annually.

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. Interest is paid semi-annually and it is in the range between 4.70 percent and 5.70 percent per annum.

Note 20 continued

From the \$195 million and €25 million private placement notes issued in 13 July 2011, the Group prepaid: \$55.3 million and €17.3 million in February 2016, and \$3.1 million and €7.7 million in August 2016. The outstanding balances in 2017 and in 2016 are as follows:

Nominal value of private placement notes in \$'000	Maturity July 2018	Maturity July 2021*	Maturity July 2023	Total
Issued in July 2011	75,000	70,000	50,000	195,000
Prepayment in February 2016	(13,800)	(17,300)	(24,200)	(55,300)
Prepayment in August 2016	(3,100)	–	–	(3,100)
Total	58,100	52,700	25,800	136,600

* Carried at fair value through profit and loss in the consolidated statements of financial position. The loans with maturity in July 2018 and 2023 are carried at amortised cost.

Nominal value of private placement notes in €'000	Maturity July 2018
Issued in July 2011	25,000
Prepayment in February 2016	(17,300)
Prepayment in August 2016	(7,700)
Total	–

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 on the 20 April 2010, identifies three series of fixed-rates' Senior Notes with different maturities: Interest is paid semi-annually and it is in the range between 5.00 percent and 6.50 percent per annum.

On 20 April 2017 and on 20 April 2015 the first two tranches of the loan issued in the U.S. private placement market matured and the Group repaid the aggregated principal amount of \$70 million and \$25 million, respectively, together with the interest accrued to the international investors. The outstanding balances in 2017 and in 2016 are as follows:

Nominal value of private placement notes in \$'000	Maturity April 2015	Maturity April 2017	Maturity April 2020*	Total
Issued in April 2010	25,000	70,000	70,000	165,000
Repayment in April 2015	(25,000)			(25,000)
Total 2016	–	70,000	70,000	140,000
Repayment in April 2017		(70,000)		(70,000)
Total 2017	–	–	70,000	70,000

* Carried at fair value through profit and loss in the consolidated statements of financial position.

Both the Credit Facility and the Note Purchase Agreements contain a number of operating covenants, including restrictions on subsidiary borrowings, restrictions on lending and giving guarantees for financial indebtedness, and restrictions on the disposal of material assets. The Credit Facility contains a number of financial covenants which include required ratios of consolidated net debt to consolidated EBITDA of the Group and consolidated EBITDA to consolidated finance costs. In addition to these ratios, the Private Placement Notes also contain a required ratio of consolidated net worth. The Group was in compliance with these covenants as of 31 December 2017 and 31 December 2016.

Terms and debt repayment schedule

The terms and conditions of outstanding loans were as follows:

€'000	Currency	Interest rate	Year of maturity	31 Dec. 2017		31 Dec. 2016	
				Nominal value	Carrying amount*	Nominal value	Carrying amount*
Revolving bank facility	EUR	Euribor + margin	2022	–	(1,256)	–	(1,113)
Private placement loan	USD	Fixed rate USD coupon	2017–2020	51,471	60,176	102,941	136,571
Private placement loan	USD / EUR	Fixed rate EUR and USD coupon	2018–2023	95,624	114,616	95,624	130,987
Private placement loan	EUR	Fixed rate EUR	2029	70,000	70,000	–	–
Bank overdrafts	TRY	12%	–	54	54	104	104
Total interest bearing liabilities				217,149	243,590	198,669	266,549

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

At 31 December 2017, the Group had total banking facilities available of €447.9 million (€415.8 million) of which €247.0 million (€264.7 million) have been utilized as bank short- and long-term loans as well as guarantees.

Reconciliation of movements of liabilities to cash flow arising from financing activities

	2016	Cash flow	Non-cash changes					2017
			Foreign exchanges movement	Fair value changes	Transaction costs related to loans	Reclassification from long to short term	Dividend declared	
Liabilities								
Long-term loans	199,713	70,000	(9,633)	(16,445)	(98)	(48,423)	–	195,113
Short-term loans	66,732	(51,471)	–	(15,262)	–	48,423	–	48,423
Dividend payables*	12,006	(80,760)	–	–	–	–	83,611	14,857
Total liabilities from financing activities	278,451	(62,231)	(9,633)	(31,707)	(98)	–	83,611	258,393

* The difference with the dividend payables recognised in the balance sheet as current liabilities and the amount reported in the table above is explained by dividend payables reported as non-current liabilities.

NOTE 21 • EQUITY COMPENSATION PLANS

At year-end 2017, Oriflame has two active Share Incentive and Retention Plans (SIP) in place, one covering the investment period from 2011 to 2014 and one covering the investment period from 2015 to 2017.

The SIP 2011-2014 was adopted in May 2011, and amended in 2013 and 2014. The 2015-2017 SIP was adopted in August 2015.

According to the terms and conditions of both SIP plans, the participants are on an annual basis offered to purchase new shares at fair market terms, or designate existing shares they own, corresponding to a fair market value of up to €2.0 million per annum. The number of Investment Shares per SIP is furthermore determined by the Board of Directors so that the potential dilution over the lifetime of the plan shall amount to less than 1 percent of the share capital of the Group per SIP investment year. The SIP contains both a service and a non-market performance condition meaning that

the participant will only receive compensation if certain pre-defined criteria have been met: The participant normally needs to continue to be employed by Oriflame throughout each investment period (3-5 years from each investment year). For each Investment Share held by the participant at the time of the vesting of the program the participant receives a number of additional shares (so called Achievement Shares). The allotment of Achievement Shares to each participant is set to be between 0 and 8 for each Investment Share, depending on whether the Group achieves certain growth rate targets in operating profit by the end of the vesting period (non-market performance condition).

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 Euribor rate. In 2017, the total equity compensation cost recorded in Administrative Expenses is €13.1 million (€4.8 million).

The number of investment shares is as follows:

Shares schemes	2017			2016			2015			2014		
	Extension period 2	Extension period 1	Initial vesting period	Extension period 2	Extension period 1	Initial vesting period	Extension period 2	Extension period 1	Initial vesting period	Extension period 2	Extension period 1	Initial vesting period
Granted at the beginning of the scheme		71,000			70,673			70,500			71,000	
Forfeited during 2015	–	–	–	–	–	–	(4,823)	(4,823)	–	(11,853)	(11,853)	(683)
Forfeited during 2016	–	–	–	(184)	(184)	(184)	–	–	–	(827)	(827)	(827)
Outstanding at the beginning of the year	–	–	–	70,579	70,579	70,579	65,677	65,677	70,500	58,320	58,320	69,490
Forfeited during 2017	(585)	(585)	(185)	(461)	(461)	(185)	(1,237)	(1,237)	(870)	(998)	(998)	(384)
Expired during 2017	–	–	–	–	–	–	–	–	–	–	–	–
Exercised during 2017	–	–	–	–	–	–	–	–	–	–	–	–
Outstanding at the end of the year for the relevant vesting period	70,415	70,415	70,815	70,118	70,118	70,394	64,440	64,440	69,630	57,322	57,322	69,106
Fair Value at Grant Date	31.24	32.34	33.34	13.58	14.58	15.43	8.76	10.13	11.46	13.15	14.32	15.39
Share Investment Price at Grant Date		36.35			16.98			14.78			18.38	

NOTE 22 • RELATED PARTIES

Identity of related parties

The group has a related party relationship with its subsidiaries (see note 23), 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 2017 as follows:

Number of shares	2017*	2016*
R. af Jochnick and family**	5,433,283	5,433,283
J. af Jochnick and family	4,362,898	4,362,898
Alexander af Jochnick	520,000	520,000
Magnus Brännström	306,196	321,196
Jesper Martinsson	248,000	280,000
Gabriel Bennet	24,000	30,000
Christian Salamon	16,500	14,500
Anders Dahlvig	13,650	13,650
Anna Malmhake	0	0
Mona Abbasi	0	0
Karen Tobiasen	0	0

* Shareholding may include holdings of related entities and immediate family members as per the IFRS definition of related parties.
 ** Also includes the Alexander af Jochnick and family holding as per the IFRS definition of related parties.

The major shareholders, the af Jochnick family and the Stichting af Jochnick Foundation, jointly exercise control over 16,123,182 shares which represents 28.9 percent of the outstanding total shares as at 31 December 2017.

The key management personnel compensation is as follows:

For the year ended 31 December 2017, the members of the Board of Directors (excluding Magnus Brännström who in his capacity as Chief Executive Officer is an employee) received total compensation of €390 (€363). The chairman received €100 (€93).

For the year ended 31 December 2017, the Chief Executive Officer is entitled to receive total compensation of €4,839 (€3,062), of which €793 (€840) was salary, €754 (€511) bonus, €2,568 (€952) share incentive plan*, €449 (€507) pension contributions under the pension scheme for senior management, and €275 (€252) other benefits and allowances, including social security.

For the year ended 31 December 2017 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 €6,371 (€4,337), of which €1,126 (€1,139) was salaries, €1,078 (€581) bonus, €2,498 (€848) share incentive plan*, €474 (€506) pension contributions under the pension scheme for senior management and €1,195 (€1,263) of other benefits and allowances, including social security.

* The compensation about the share incentive plan reflects the 2017 cost of future potential awards under ongoing share incentive plans as mentioned in the note 21 Equity Compensation Plan.

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 follow:

€'000	Transaction value Year ended at 31 Dec.		Balance outstanding as at 31 Dec.	
	2017	2016	2017	2016
Expenses and employee costs incurred on behalf of and recharged to Medicover S.A.	(13)	(10)	–	–
Services provided by Credus Management AB	90	134	–	26
Medicover health care services	363	341	3	3

Note 22 continued

All transactions with related parties are done on arm's length basis. During the year ending 31 December 2017 and 2016, 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 (Medicover is now called EUC Premium s.r.o in Czech Republic) and Estonia (Medicover is now called Qualitas Artikeskus As in Estonia) to provide private health care benefits to employees.

NOTE 23 • 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 held	%	Name	Country of Incorporation held	%
SARL Natural Swedish Cosmetics	Algeria	100	Oriflame Latvija S.I.A	Latvia	100
Oriflame Cosmetics LLC	Armenia	100	Oriflame Kosmetika UAB.	Lithuania	100
Oriflame LLC	Azerbaijan	100	Oriflame Cosmetics Global SA	Luxembourg	100
Oriflame Cosmetics Foreign LLC	Belarus	100	Oriflame Foundation	Luxembourg	100
Oriflame Kozmetika BH. D.o.o. Sarajevo	Bosnia	100	Oriflame Kozmetika d.o.o.	Macedonia	100
Oriflame Bulgaria EOOD	Bulgaria	100	Oriflame Investments Ltd	Mauritius	100
Oriflame de Chile SA	Chile	100	Myanmar Oriflame Company Ltd	Myanmar	100
Oriflame Cosmetics (China) Co. Ltd	China	100	Oriflame (Mexico) SA de CV	Mexico	100
Oriflame Health Food (Beijing) Co Ltd	China	100	Servicios Oriflame, SA de CV	Mexico	100
Oriflame Services Hong Kong Limited	China	100	Oriflame International SRL	Moldova	100
Oriflame de Colombia SA	Colombia	100	Oriflame Mongolia LLC	Mongolia	100
Oriflame Kozmetika Croatia doo.	Croatia	100	Oriflame Kosmetika MN doo.	Montenegro	100
Oriflame Cyprus Limited	Cyprus	100	Oriflame Maroc SARL	Morocco	100
Tyndelca Trading Limited	Cyprus	100	Oriflame Holdings BV.	Netherlands	100
Oriflame Czech Republic sro	Czech Republic	100	Oriflame Nigeria Cosmetics Limited	Nigeria	100
Oriflame Software sro	Czech Republic	100	Oriflame Norge A/S	Norway	100
Oriflame International ApS	Denmark	100	Oriflame Cosmetics Pakistan (PVT) LTD	Pakistan	100
Oriflame del Ecuador SA	Ecuador	100	Oriflame Peru S.A.	Peru	100
Oriflame Egypt Ltd	Egypt	100	Oriflame Poland SP zoo.	Poland	100
Oriflame Estonia OU	Estonia	100	Oriflame Products Poland SP zoo.	Poland	100
Oriflame Oy	Finland	100	Oriflame Property Investments SP zoo.	Poland	100
Oriflame Georgia LLC	Georgia	100	Oriflame Cosmetics Ltda	Portugal	100
Special Trading Company Oriflame Caucasus	Georgia	100	SC Cosmetics Oriflame Romania srl.	Romania	100
Oriflame Kosmetik Vertriebs GmbH	Germany	100	Oriflame Cosmetics LLC	Russia	100
Oriflame Hellas Sole Shareholder Ltd	Greece	100	Cetes Cosmetics LLC *	Russia	100
Oriflame Hungary Kozmetika Kft	Hungary	100	Oriflame Kosmetika d.o.o.	Serbia	100
Oriflame India Pvt. Ltd.	India	100	Oriflame Slovakia sro	Slovak Republic	100
PT Oriflame Cosmetics Indonesia	Indonesia	100	Oriflame Kozmetika d.o.o.	Slovenia	100
PT Orindo Alam Ayu	Indonesia	100	Oriflame Cosmetics S.A.	Spain	100
Oriflame Research & Development Ltd.	Ireland	100	Oriflame Lanka Private Ltd	Sri Lanka	100
Oriflame LLP	Kazakhstan	100	Oriflame Cosmetics AB	Sweden	100
Oriflame Cosmetics LLC	Kosovo	100	Oriflame Cosmetics AG	Switzerland	100
Oriflame East Africa Ltd	Kenya	100	Oriflame Global Management AG	Switzerland	100
Oriflame Cosmetics LLC	Kyrgyzstan	100	CETES Cosmetics AG	Switzerland	100

Note 23 continued

Name	Country of Incorporation held	%
Oriflame East Africa Tanzania Ltd	Tanzania	100
Oriflame Cosmetics (Thailand) Ltd	Thailand	100
Oriflame Management Asia Ltd	Thailand	100
Oriflame Kozmetik Urunleri Ticaret Ltd Sirketi	Turkey	100
Oriflame Tunisie S.A.R.L.	Tunisia	100
Oriflame East Africa Uganda Ltd	Uganda	100
Limited Liability Company Oriflame Ukraine	Ukraine	100
Oriflame Middle East DMCC	United Arab Emirates	100
Oriflame Vietnam Ltd.	Vietnam	100

In July 2017, SC “Oriflame Cosmetics” Ukraine , Ukraine a former subsidiary of the Group, was liquidated.

* In September 2017, Oriflame Products LLC, Russia, a subsidiary of the Group, was renamed to Cetes Cosmetics LLC.

NOTE 24 • PROVISIONS, COMMITMENTS AND CONTINGENT LIABILITIES

(a) Provisions

€'000	Tax litigations	Restructuring	Claims & other	Total
Balance at 1 January 2017	955	1,839	2,434	5,228
Provisions made during the year	886	937	325	2,148
Provisions used during the year	(287)	(1,638)	(1,525)	(3,450)
Provisions reversed during the year	(21)	(40)	(164)	(225)
Translations	(31)	(24)	(79)	(134)
Balance at 31 December 2017	1,502	1,074	991	3,567

Tax litigation provisions relate to several jurisdictions where the Group 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.

The remaining restructuring provision which was communicated in December 2015 was mainly used in 2017. The remaining balance will be used within twelve months. During the period, new restructuring provisions related to a reorganisation in a regional office were built and will be used in the coming year.

(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.

The Group is exposed to contingent liabilities amounting to a maximum potential payment of €6.8 million (€9.3 million) representing income tax potential litigations of €6.2 million (€6.2 million) and other claims of €0.6 million (€3.1 million). Potential income tax litigations relate mainly to tax legislations in South Asia and in Africa.

(c) Minimum lease commitments

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

€'000	2017	2016
Within one year	20,672	21,632
Between one and three years	23,269	24,424
Between three and five years	15,761	12,821
Over five years	2,788	1,921
	62,490	60,798

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 2017 €27.5 million (€28.9 million) was recognised as an expense in the consolidated income statements in respect of operating leases.

(d) Bank guarantees

At 31 December 2017, the Group had bank guarantees in place of €8.0 million (€5.1 million).

NOTE 25 • PENSIONS

Defined contribution plans

During the year, companies operating defined contribution schemes recognized for these schemes €5.6 million pension costs (€5.2 million)

Defined benefit plans

The Group contributes to defined benefit plans in Switzerland. Its net obligation in respect of defined benefit plans was calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of plan assets. The calculation of the defined benefit obligations was performed by a qualified actuary using the projected unit credit method. The Swiss pension plans are governed by the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG), which stipulates that pension plans are to be managed by independent, legally autonomous units. The assets of the pension plans are held within a separate foundation and cannot revert to the employer. Pension plans are overseen by a regulator as well as by a state supervisory body.

The Swiss group entities are affiliated to a collective foundation administrating the pension plans of various unrelated employers. The pension plan of the Swiss group entities is fully segregated from the ones of other participating employers.

The most senior governing body of a pension foundation is the Board of Trustees, which is composed of equal numbers of employee and employer representatives. All governing and administration bodies have an obligation to act in the interests of the plan participants.

Plan participants, their spouse and children are insured against the financial consequences of old age, disability and death. Their benefits are defined in pension plan rules compliant with the BVG, which is specifying the minimum benefits that are to be provided. Retirement benefits are based on the accumulated retirement capital which can either be drawn as a life-long annuity or as a lump sum payment. The annuity is calculated by multiplying the retirement capital with the currently applicable conversion rate. The accumulated retirement capital is made of the yearly contributions towards the old age risk by both employer and employee where applicable and the interest thereon until retirement. Minimum contributions and interest are defined by the BVG and the Swiss Parliament. In 2017 the minimum interest was 1.00 percent (1.25 percent). The actual contributions towards the old age risk as well as the benefits provided are based on the rules defined by the Board of Trustees of the foundation and are above the minimum requirements of the BVG.

All actuarial risks of the plans, e.g. old age, invalidity and death or investment are fully covered by insurance. An underfunding is therefore not possible. However the insurance is able to withdraw from the contract with the group at any time or to increase premiums over time to reflect the risks of the plan, reason why the plan is classified as "defined benefit" plan.

The insurance company bearing the investment risk is also making these investments on behalf of the foundation. As a result, the assets of the Swiss plan consist of a receivable from the insurance policy.

The costs recognized in relation to the defined benefit plans during the year amounted to €1.4 million (€1.1 million). The net defined benefit liability at year end amounts to €4.9 million (€3.9 million). In 2018, €1.3 million (€1.3 million) in employer contributions are expected to be paid for the defined benefit plans.

Note 25 continued

(a) Movement in net defined benefit liability

The below table illustrates the net defined benefit liability movements and its components during the period.

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability	
€'000	2017	2016	2017	2016	2017	2016
Balance at 1 January	11,128	9,192	(7,269)	(5,540)	3,859	3,652
Included in income statement						
Service cost						
– Current service cost	1,352	1,395	–	–	1,352	1,395
– Past service cost	–	(355)	–	–	–	(355)
Administrative expenses	–	–	54	55	54	55
Interest expense / (income)	86	98	(60)	(64)	26	34
Defined benefit cost included in income statement	1,438	1,138	(6)	(9)	1,432	1,129
Included in Other Comprehensive Income (OCI)						
Remeasurements loss / (gain)						
Effect of changes						
– In demographic assumptions	–	(670)	–	–	–	(670)
– In financial assumptions	(141)	427	–	–	(141)	427
Effect of experience adjustments	1,648	647			1,648	647
Return on plan assets (excluding interest income)	–	–	31	(44)	31	(44)
Total remeasurements included in OCI	1,507	404	31	(44)	1,538	360
Other						
Exchange differences included in the income statement	(1,142)	109	750	(74)	(392)	35
Contributions						
– Employers	–	–	(1,499)	(1,317)	(1,499)	(1,317)
– Participants	48	42	(48)	(42)	–	–
Insurance premiums for risk benefits	(303)	(264)	303	264	–	–
Benefit payments from/to the plan	1,917	507	(1,917)	(507)	–	–
Total Other	520	394	(2,411)	(1,676)	(1,891)	(1,282)
Balance at 31 December	14,593	11,128	(9,655)	(7,269)	4,938	3,859

(b) Actuarial assumptions

At the reporting date, the significant actuarial assumptions used in the valuation were as follows

€'000	2017	2016
Discount rate, %	0.70	0.65
Interest rate for the projection of the savings capital, %	0.70	0.65
Future salary increases, %	1.70	1.50
Mortality probabilities	BVG 2015 generational tables	BVG 2015 generational tables

At 31 December 2017, the weighted-average duration of the defined benefit obligation was 21.2 years (21.4 years)

The expected benefit payments are as follows:

	2017	2016
Less than one year	15	11
Between 1–5 years	242	182
Over 5 years	1,220	778

(c) Sensitivity analysis

A change at the reporting date in one of the disclosed assumptions (holding other assumptions constant) would have impacted the net defined benefit liability by the following amounts:

€'000	31 Dec. 2017		31 Dec. 2016	
	0.25% Increase	0.25% Decrease	0.25% Increase	0.25% Decrease
Discount rate	(746)	807	(574)	622
Future salary increases	305	(300)	244	(240)
Future pension increases	382	–	293	–

Plan assets

At 31 December, plan assets are made of the following categories:

€'000	2017	2016
Cash and cash equivalents	63	30
Mortgages	1,407	1,036
Swiss bonds in CHF	3,118	2,413
Foreign bonds in CHF	3,118	2,413
Swiss shares	306	192
Foreign shares	306	192
Swiss real estates	630	457
Real estates other than Swiss	630	457
Other investments	77	79
Plan assets at 31 December	9,655	7,269

NOTE 26 • FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

26.1 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.

(a) Foreign currency risk

Translation exposure

Translation exposure arises due to the financial results and balance sheet positions of operating subsidiaries reported in their functional currency. 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 functional 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 most 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 assets 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 most 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 intra-group sales, which present an exposure to variations in cash flows that could ultimately affect profit or loss.

As at 31 December 2017 there were a variety of forward exchange contracts outstanding for a nominal amount equivalent of €84.1 million (€129.0 million) with maturities ranging from January to December 2018, to hedge selected currency transaction exposures and highly probable forecast transactions.

The Group uses a variety of forward exchange contracts with a nominal amount equivalent of €3.6 million (€21.0 million) to economically hedge monetary assets and liabilities in foreign currencies, mainly intra-group. The derivatives are not designated as hedge accounting relationships and therefore the changes in fair value of the derivatives 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 2017, the fair value of these contracts was €0.1 million loss (€0.7 million gain).

The Group claims cash flow hedge accounting for a variety of forward contracts at a nominal amount of €80.5 million (€108.0 million) that hedge the cash flow variability due to foreign currency risk inherent in either future transactions that result in recognition of non-financial liability or highly probable forecast transactions, mainly intra-group. The effective portion of changes in the fair value of derivatives is recognised in other comprehensive income within equity and they are expected to impact the profit and loss within twelve months or less. The ineffective portion of the gain or loss is recognised immediately in the income statement. As of 31 December 2017, the fair value of these forward contracts was €0.5 million gain (€1.6 million gain).

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 statements of financial

position as this designation result in more relevant information through the consistent recognition of opposing movement in fair value through profit and loss. The Group accounts for the \$75 million loan maturing in July 2018 and \$50 million loan maturing in July 2023 as a financial liability at amortised costs. The Group applies cash flow hedge accounting for related cross currency interest rate swaps, where the effective portion of changes in the fair value of cross currency interest rate swaps is recognised in other comprehensive income within equity and they are expected to impact the profit and loss after more than a year. The ineffective portion of the gain or loss is recognised immediately in the consolidated income statements.

In February 2016 and in August 2016 the Group repurchased the total of \$58.4 million and €25 million of \$195 million and €25 million private placement notes issued in 13 July 2011. The principal amount outstanding after the repurchase of each series of Senior Notes: \$58.1 million due July 2018, \$52.7 million due July 2021 and \$25.8 million due July 2023. Subsequent to the repurchase of USD loan, USD and euro denominated flows of the cross currency interest rate swaps were partially reduced to match the outstanding principal amount of USD loan. The Group continues to apply cash flow hedge accounting for cross currency interest rate swaps related to USD loan maturing in July 2018 and July 2023.

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 statements of financial position.

On 20 April 2017 and 2015 the first two tranches in the U.S. private placement market notes issued in 2010 matured and the Group repaid the aggregated principal amount of \$70 million and \$25 million, respectively together with the interest accrued to the international investors.

Exposure to currency risk

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

2017	RUB	IDR	INR	CNY	MXN	TRY
In €'000 equivalents						
Intra-group trading balances	33,865	5,930	(2,004)	5,529	13,520	4,360
Trade receivables/(payables)	-	-	-	-	-	-
Gross balance sheet exposure	33,865	5,930	(2,004)	5,529	13,520	4,360
Forward exchange rate contracts*	(14,942)	(5,665)	(206)	(1,140)	(5,959)	(2,547)
Net Exposure	18,923	265	2,210	4,389	7,561	1,813

2016	RUB	IDR	INR	CNY	MXN	TRY
In €'000 equivalents						
Intra-group trading balances	36,007	4,701	1,885	(21,096)	6,430	4,505
Trade receivables/(payables)	(9)	-	-	-	-	-
Gross balance sheet exposure	35,998	4,701	1,885	(21,096)	6,430	4,505
Forward exchange rate contracts*	(12,302)	(1,411)	(349)	(1,366)	(4,363)	(2,615)
Net Exposure	23,696	3,290	1,536	(22,462)	2,067	1,890

* Forward exchange rate contracts have been designated as economically hedge monetary assets and liabilities and the changes in the fair value are recognised in the consolidated income statement.

The following significant exchange rates applied during the year:

€	Average rate		Reporting date rate	
	2017	2016	2017	2016
RUB	65.85	74.54	68.87	63.81
IDR	15,116.88	14,723.90	16,239.12	14,173.43
INR	73.50	74.32	76.61	71.59
CNY	7.62	7.34	7.80	7.32
MXN	21.34	20.64	23.66	21.77
TRY	4.12	3.34	4.52	3.71

Sensitivity analysis

The Group trades in more than forty currencies. The Group has selected the top six markets 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. 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 %	2017	2016
RUB	(0.7)	(0.8)
IDR	(0.4)	(0.5)
INR	(0.3)	(0.4)
CNY	(0.5)	(0.5)
MXN	(0.3)	(0.3)
TRY	(0.2)	(0.3)

Effect on Group equity in € million	2017	2016
RUB	(0.4)	(0.2)
IDR	(0.4)	(0.4)
INR	(0.3)	(0.3)
CNY	(0.6)	(0.5)
MXN	(0.3)	(0.2)
TRY	(0.1)	(0.1)

(b) Interest rate risk

Hedge

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

In February 2016 and in August 2016 the Group repurchased the total of \$16.9 million of \$75 million and \$ 24.2 million of \$50 million private placement notes issued in July 2011. The principal amount outstanding after the repurchase of the related Senior Notes: \$58.1 million due in July 2018 and \$25.8 million due in July 2023. Subsequent to the repurchase of USD loan, USD and euro denominated flows of the cross currency interest rate swaps were partially reduced to match the outstanding principal amount of USD loan. The Group continues to apply 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. The loans and the associated cross currency swaps and caps are accounted at fair value through profit and loss.

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. The loans and the associated cross currency swaps and caps are accounted at fair value through profit and loss.

In February 2016 the Group repurchased the total of \$17.3 million of \$70 million private placement notes issued in July 2011. The principal amount outstanding after the repurchase of the related Senior Notes is \$52.7 million due in July 2021. Subsequent to the repurchase of USD loan, USD and euro denominated flows of the cross currency interest rate swaps were partially reduced to match the outstanding principal amount of USD loan. No changes have been made to the caps.

In June and July 2017, the Group entered into interest rate swap agreements in the total nominal amount of the outstanding cross currency interest rate swaps in order to convert the floating rates into fixed interest rates obligations. Similarly to the USD loan and related cross currency interest rate swaps, the recently acquired interest rate swaps are measured at fair value through profit and loss in the consolidated statements of financial position 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.

Effects in €'000	Profit or (loss)		Other comprehensive income within equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
31 December 2017				
Variable rate interest-bearing liabilities	-	-	-	-
Interest rate caps	68	(26)	-	-
Interest rate swaps	2,280	(2,347)	-	-
Cross currency interest rate swaps	(1,184)	1,209	256	(258)
Cash flow sensitivity (net)	1,164	(1,164)	256	(258)

31 December 2016

Variable rate interest-bearing liabilities	-	-	-	-
Interest rate caps	141	(41)	-	-
Interest rates swaps	-	-	-	-
Cross currency interest rate swaps	(2,966)	3,012	687	(697)
Cash flow sensitivity (net)	(2,825)	2,971	687	(697)

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 16).

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	2017	2016
Trade and other receivables	64,822	60,978
Cash and cash equivalents	221,399	185,469
Interest rate caps for trading	8	23
Forward exchange rate contracts for trading	171	202
Forward exchange rate contracts for hedging	1,585	1,534
Cross currency interest rate swaps for trading	17,875	51,650
Cross currency interest rate swaps for hedging	10,043	18,929
	315,903	316,441

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 2017						
€'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	243,536	242,924*	47,368	61,565	43,456	90,535
Trade and other payables	78,040	78,040	78,040	–	–	–
Accrued expenses	93,923	93,923	93,923	–	–	–
Bank overdrafts	54	54	54	–	–	–
Other long-term liabilities	808	808	808	–	–	–
Dividend payable	14,049	14,049	14,049	–	–	–
Derivative financial liabilities						
Cross currency interest rate swaps for trading	494	494	494	–	–	–
Interest rate swaps for trading	232	232	232	–	–	–
Forward exchange rate contracts for trading	69	69	69	–	–	–
Cross currency interest rate swaps for hedging (cash flow hedge)	684	684	684	–	–	–
Forward exchange rate contracts for hedging (cash flow hedge)	1,145	1,145	1,145	–	–	–
Total	433,034	432,422	236,866	61,565	43,456	90,535
31 December 2016						
€'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	266,445	226,004*	57,644	49,460	95,294	23,606
Trade and other payables	79,548	79,548	79,548	–	–	–
Accrued expenses	92,337	92,337	92,337	–	–	–
Bank overdrafts	104	104	104	–	–	–
Other long-term liabilities	838	838	838	–	–	–
Dividend payable	11,167	11,167	11,167	–	–	–
Derivative financial liabilities						
Cross currency interest rate swaps for trading	757	757	757	–	–	–
Forward exchange rate contracts for trading	2,130	2,130	2,130	–	–	–
Cross currency interest rate swaps for hedging (cash flow hedge)	684	684	684	–	–	–
Forward exchange rate contracts for hedging (cash flow hedge)	1,887	1,887	1,887	–	–	–
Total	455,897	415,456	247,096	49,460	95,294	23,606

* The contractual cash flows is the net contractual cash flows of the hedged item and the cash flows from the derivatives (cross currency interest rate swaps) to hedge the currency and interest rate risks.

26.2 CAPITAL 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 USD private placement notes dated 20 April 2010 and 13 July 2011, oblige the Group to maintain consolidated net worth of €120 million at each year end for the term of the agreement. The capital is defined as the consolidated net worth, which is equal to equity prepared in accordance with IFRS attributable to owners of the Group, and amounts to €221.6m (€211.7m).

No changes have been made in the objectives, policies, or processes for managing capital during the year ended 31 December 2017.

26.3 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 2017		31 December 2016	
€'000	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets carried at fair value				
Cross currency interest rate swaps for trading	17,875	17,875	51,650	51,650
Interest rate caps for trading	8	8	23	23
Forward exchange rate contracts for trading	171	171	202	202
<i>Total derivatives for trading</i>	<i>18,054</i>	<i>18,054</i>	<i>51,875</i>	<i>51,875</i>
Cross currency interest rate swaps for hedging	10,043	10,043	18,929	18,929
Forward exchange rate contracts for hedging	1,585	1,585	1,534	1,534
<i>Total derivatives for hedging</i>	<i>11,628</i>	<i>11,628</i>	<i>20,463</i>	<i>20,463</i>
<i>Total derivative financial assets</i>	<i>29,682</i>	<i>29,682</i>	<i>72,338</i>	<i>72,338</i>
Total financial assets carried at fair value	29,682	29,682	72,338	72,338

	31 December 2017		31 December 2016	
€'000	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities carried at amortised cost				
Loans	(138,607)	(152,596)	(78,338)	(81,529)
Total financial liabilities carried at amortised cost	(138,607)	(152,596)	(78,338)	(81,529)
Financial liabilities carried at fair value				
USD loan	(104,929)	(104,930)	(188,107)	(188,107)
<i>Total designated as such upon initial recognition</i>	<i>(104,929)</i>	<i>(104,930)</i>	<i>(188,107)</i>	<i>(188,107)</i>
Cross currency interest rate swaps for trading	(494)	(494)	(757)	(757)
Interest rate swaps for trading	(232)	(232)	–	–
Forward exchange rate contracts for trading	(69)	(69)	(2,130)	(2,130)
<i>Total derivatives for trading</i>	<i>(795)</i>	<i>(795)</i>	<i>(2,887)</i>	<i>(2,887)</i>
Cross currency interest rate swaps for hedging	(684)	(684)	(684)	(684)
Forward exchange rate contracts for hedging	(1,145)	(1,145)	(1,887)	(1,887)
<i>Total derivatives for hedging</i>	<i>(1,829)</i>	<i>(1,829)</i>	<i>(2,571)</i>	<i>(2,571)</i>
<i>Total derivative financial liabilities</i>	<i>(2,624)</i>	<i>(2,624)</i>	<i>(5,458)</i>	<i>(5,458)</i>
Total financial liabilities carried at fair value	(107,553)	(107,554)	(193,565)	(193,565)

The fair values for all other financial instruments such as cash and cash equivalents, short-term trade receivables and payables are not disclosed, because their carrying amounts are a reasonable approximation of fair value.

Derivative financial assets and liabilities

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

Financial liabilities at amortised costs

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

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

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

26.4 FAIR VALUE HIERARCHY

The table below shows fair value of financial assets and financial liabilities, including their levels in the fair value hierarchy, by valuation method. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. 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 2017				
Financial assets and liabilities measured at fair value				
USD Loans	-	(104,930)	-	(104,930)
Derivative financial assets	-	29,682	-	29,682
Derivative financial liabilities	-	(2,624)	-	(2,624)
	-	(77,872)	-	(77,872)
Financial assets and liabilities not measured at fair value				
Loans	-	(152,596)	-	(152,596)
	-	(152,596)	-	(152,596)

€'000	Level 1	Level 2	Level 3	Total
31 December 2016				
Financial assets and liabilities measured at fair value				
USD Loans	-	(188,107)	-	(188,107)
Derivative financial assets	-	72,338	-	72,338
Derivative financial liabilities	-	(5,458)	-	(5,458)
	-	(121,227)	-	(121,227)
Financial assets and liabilities not measured at fair value				
Loans	-	(81,529)	-	(81,529)
	-	(81,529)	-	(81,529)

26.5 MASTER NETTING OR SIMILAR AGREEMENTS

The group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other.

In certain circumstances – e.g. when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

The ISDA agreements do not meet the criteria for offsetting in the statement of financial position. This is because the Group does not have any currently legally enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events such as a default on the bank loans or other credit events.

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements.

	Gross and net amounts of financial instruments in the statement of financial position	Related financial instruments that are not offset	Net amount
31 December 2017			
Financial assets			
Cross currency interest rate swaps	27,918	(1,177)	26,741
Interest rate caps	8	-	8
Forward exchange contracts	1,756	(1,215)	541
	29,682	(2,392)	27,290
Financial liabilities			
Cross currency interest rate swaps	(1,177)	1,177	-
Interest rate swaps	(232)	-	(232)
Forward exchange contracts	(1,215)	1,215	-
	(2,624)	2,392	(232)
31 December 2016			
Financial assets			
Cross currency interest rate swaps	70,579	(1,441)	69,138
Interest rate caps	23	-	23
Forward exchange contracts	1,736	(1,736)	-
	72,338	(3,177)	69,161
Financial liabilities			
Cross currency interest rate swaps	(1,441)	1,441	-
Interest rate swaps	-	-	-
Forward exchange contracts	(4,017)	1,736	(2,281)
	(5,458)	3,177	(2,281)

NOTE 27 • ACCRUED EXPENSES

€'000	2017	2016
PD & Bonus	36,235	33,330
Staff related accruals	28,942	27,316
Other accruals	62,634	61,562
Total accrued expenses	127,811	122,208

NOTE 28 • EVENTS SUBSEQUENT TO THE REPORTING PERIOD

No significant events to be disclosed have occurred after the reporting period up to the date of the authorisation of these consolidated financial statements.

Statutory Auditor's Report

To the General Meeting of Oriflame Holding AG, Schaffhausen

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Oriflame Holding AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 83 to 127) give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial state-

ments of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Finance transformation

Key Audit Matter

The Group has entered into a long-term partnership to outsource its IT and financial operational services. This finance transformation includes among others the transfer of internal finance shared services to external parties, which has a significant impact on the Group's business processes, control activities and internal control responsibilities.

The new partnership will cover the entire Group. Having started in September 2016, it is expected that the majority is implemented by the end of 2018.

There is a significant risk that a material misstatement could occur if the project were not implemented with proper oversight and focus on maintaining effective internal controls at all times and throughout all business processes.

Our response

Our audit procedures included, amongst others, meeting with the Audit Committee and the project team on a regular basis during the year to understand and monitor the effects of changes to the Group's internal control environment across the organisation.

We tested the key controls regarding design and implementation prior and after the transformation.

For selected subsidiaries, we performed audit procedures on specific account balances, obtained highlight memorandums and held conference calls to discuss the findings.

We performed site visits at the main location of the Group's business partner to test the design and effectiveness of controls impacted by the finance transformation.

Taxation

Key Audit Matter

The Group operates across a high number of tax jurisdictions many of which in emerging markets with rapidly evolving legal and tax legislations.

As described in the summary of significant accounting policies, significant judgment is required in determining provision for income taxes, both current and deferred, as well as the assessment of provisions for uncertain tax positions.

Due to their significance to the consolidated financial statements as a whole, combined with the judgment and estimation required to determine their values, the evaluation of current and deferred tax balances is considered to be a key audit matter.

Our response

Our audit procedures included, amongst others, evaluation of the design and implementation of controls in respect of current tax provisions and the recognition and recoverability of deferred tax assets.

For the procedures below, we involved our own local and international tax specialists.

- We examined the procedures in place for the current and deferred tax calculations for completeness and valuation and audited the related tax computations and estimates in the light of our knowledge of the tax circumstances.
- We performed an assessment of the material components impacting the Group's tax expense, balances and exposures. We analysed and challenged the information reported by components.
- We considered management's assessment of the validity and adequacy of provisions for uncertain tax positions, evaluating the basis of assessment including any information regarding similar cases with the relevant tax authorities.
- In respect of deferred tax assets and liabilities, we assessed the appropriateness of management's assumptions and estimates, including the likelihood of generating sufficient future taxable income to support deferred tax assets for tax losses carried forward.

We evaluated the appropriateness and completeness of the related disclosures.

For further information on taxation refer to the following:

- Significant accounting policies 2(c) and 2(l)
- Note 10, Note 14 and Note 24

Other Information in the Annual Report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements of the company, the remuneration report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, 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.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate,

they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to

express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

Hélène Béguin
Licensed Audit Expert
Auditor in Charge

Kathrin Schünke
Licensed Audit Expert

Zurich, 10 April 2018

Balance sheet Oriflame Holding AG, Schaffhausen

Assets	Notes	31 December 2017		31 December 2016	
		EUR	CHF	EUR	CHF
Cash and cash equivalents		4,755,439	5,564,814	3,203,909	3,440,678
Other short-term receivables		2,163,764	2,532,037	5,696,126	6,117,070
due from third parties		11,690	13,680	3,536	3,797
due from group subsidiaries		2,152,074	2,518,357	5,692,590	6,113,273
Prepaid expenses		26,819	31,385	26,874	28,860
Total current assets		6,946,022	8,128,236	8,926,909	9,586,608
Financial assets		344,216,905	363,920,589	390,436,422	409,456,048
Investments	5	301,644,943	314,102,879	301,644,943	314,102,879
Loans to group companies	17	42,571,962	49,817,710	88,791,479	95,353,169
Property, plant and equipment		1,150	1,346	1,809	1,943
Goodwill	6	210,444,787	219,757,462	294,622,702	307,660,448
Total non-current assets		554,662,842	583,679,397	685,060,933	717,118,439
Total assets		561,608,864	591,807,633	693,987,842	726,705,047
Liabilities					
Other short-term liabilities		249,165	291,573	488,243	524,325
due to third parties		111,323	130,270	148,091	159,035
due to group subsidiaries		–	–	312,012	335,070
due to shareholder		137,842	161,303	28,140	30,220
Accrued expenses	14	1,634,957	1,913,227	707,828	760,136
Provision for outstanding dividends from capital contribution reserves	19	13,935,201	16,088,190	11,148,161	11,972,010
Total current liabilities		15,819,323	18,292,990	12,344,232	13,256,471
Share capital	7	79,849,590	83,630,948	79,849,590	83,630,948
Legal capital reserve		548,473,506	566,731,343	632,084,714	660,750,752
Capital contribution reserve	7, 8	527,559,090	548,500,752	623,924,246	651,619,033
Other reserve from capital contribution	7, 8	20,914,416	18,230,591	8,160,468	9,131,719
Accumulated losses		(82,443,780)	(76,740,608)	(30,200,919)	(30,826,084)
Loss brought forward		(30,200,918)	(31,927,248)	(44,677,634)	(47,709,763)
Profit / (loss) for the period		(52,242,862)	(58,070,988)	14,476,715	15,782,516
Currency conversion reserves		–	13,257,628	–	1,101,163
Treasury shares against capital contribution reserve	9	(89,775)	(107,040)	(89,775)	(107,040)
Shareholders' equity		545,789,541	573,514,643	681,643,610	713,448,576
Total liabilities and shareholders' equity		561,608,864	591,807,633	693,987,842	726,705,047

Income statement Oriflame Holding AG, Schaffhausen

Income statement for the period	Notes	01.01.2017-31.12.2017		01.01.2016-31.12.2016	
		EUR	CHF	EUR	CHF
Revenue from group company		3,202,560	3,559,832	2,304,933	2,512,838
Dividend income	13	32,000,000	35,569,867	100,000,000	109,020,000
Total operating income		35,202,560	39,129,699	102,304,933	111,532,838
Personnel expenses	14	(4,149,274)	(4,612,160)	(2,056,751)	(2,242,270)
Other operating expenses	18	(1,493,768)	(1,660,410)	(2,089,897)	(2,278,405)
Depreciation on tangible assets		(659)	(733)	(55)	(60)
Depreciation on intangible assets	6	(84,177,915)	(93,568,663)	(84,177,914)	(91,770,762)
Total operating expenses		(89,821,616)	(99,841,966)	(88,324,617)	(96,291,497)
Operating result		(54,619,056)	(60,712,267)	13,980,316	15,241,341
Financial expenses	15	(61,110)	(67,927)	(51,922)	(56,605)
Financial income	15	2,527,741	2,809,732	701,177	764,423
Non-operating expenses		(283)	(315)	(146,820)	(160,063)
Non-recurring income	16	13,353	14,843	-	-
Non-recurring expenses	16	-	-	(6,036)	(6,580)
Result before taxes		(52,139,355)	(57,955,934)	14,476,715	15,782,516
Direct taxes	18	(103,507)	(115,054)	-	-
Profit / (Loss) for the period		(52,242,862)	(58,070,988)	14,476,715	15,782,516

Notes Oriflame Holding AG, Schaffhausen

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

1 • STATUS AND PRINCIPAL ACTIVITY

Oriflame Holding AG (“OHAG” or the “company”) is a holding company founded on 6 October 2014 and incorporated in Switzerland. The company has been registered at Bleicheplatz 3, CH-8200 Schaffhausen. The company became the ultimate holding of Oriflame Group as of 19 June 2015 and is listed on the Nasdaq Stockholm Exchange since 23 June 2015.

The principal activity of the company is the holding of participations in other companies. The purpose of the company is to acquire, hold, administrate and sell participations in enterprises in Switzerland and abroad, especially in the field of products and services within the beauty industry. The principal activities of the Group subsidiaries are the manufacture and direct sale of cosmetics throughout the world.

The accounting year begins on 1 January and ends on 31 December.

The company has also prepared consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

2 • ACCOUNTING PRINCIPLES APPLIED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

These financial statements have been prepared in accordance with the provisions of commercial accounting as set out in the Swiss Code of Obligations (Art. 957 to 963b CO, effective since 1 January 2013).

3 • FOREIGN CURRENCY

The functional currency of the company is EUR. For presentation purposes, equity, goodwill and investments are converted using the historical exchange rate, all other positions are converted in CHF using below exchange rates. The currency conversion difference is booked in equity.

Foreign currency	1 EUR
Income statement for 2017	1.1116
Balance sheet as at 31 December 2017	1.1702

4 • FULL-TIME EQUIVALENTS

The number of full-time equivalents did not exceed 10 on an annual average basis in 2017 as well as in 2016.

5 • INVESTMENTS

As at 31 December 2017 the company holds directly 3,031,000 shares in Oriflame Cosmetics Global S.A., Luxembourg and 100,000 shares in SARL Natural Swedish Cosmetics, Algeria representing 100% of the share capital and 100% of the voting rights. The investments are valued at acquisition cost or if the value is lower, at value in use.

Company	Country of incorporation	Book value in in EUR '000	Capital in LC '000	Currency	Share capital held in %	Voting rights held in %
Oriflame Cosmetics Global S.A.	Luxembourg	301,644	3,031	EUR	100	100
SARL Natural Swedish Cosmetics	Algeria	1	100	DZD	100	100

Note 5 continued

As at 31 December 2017 the company holds indirectly 20 percent or more of the issued share capital of the following companies:

Company	Country of incorporation	Capital in LC '000	Currency	Share capital held in %	Voting rights held in %
Oriflame Cosmetics LLC	Armenia	50	AMD	100	100
Oriflame LLC	Azerbaijan	206	AZM	100	100
Oriflame Cosmetics Foreign LLC	Belarus	1,137	BYN	100	100
Oriflame Kozmetika BH. D.o.o. Sarajevo	Bosnia	2	BAM	100	100
Oriflame Bulgaria EOOD	Bulgaria	3	BGN	100	100
Oriflame de Chile SA	Chile	2,638	CLP	100	100
Oriflame Cosmetics (China) Co. Ltd	China	203,133	CNY	100	100
Oriflame Health Food (Beijing) Co Ltd	China	12,000	CNY	100	100
Oriflame Services Hong Kong Ltd	China	100	HKD	100	100
Oriflame de Colombia SA	Colombia	5,864	COL	100	100
Oriflame Kozmetika Croatia doo.	Croatia	15,020	KUN	100	100
Oriflame Cyprus Limited	Cyprus	1	EUR	100	100
Tyndelca Trading Limited	Cyprus	2	EUR	100	100
Oriflame Czech Republic sro	Czech Republic	2,020	CZK	100	100
Oriflame Software sro	Czech Republic	6,200	CZK	100	100
Oriflame International ApS	Denmark	3,300	DKK	100	100
Oriflame del Ecuador SA	Ecuador	5,047	USD	100	100
Oriflame Egypt Ltd	Egypt	50	ELE	100	100
Oriflame Estonia OU	Estonia	3	EUR	100	100
Oriflame Oy	Finland	505	EUR	100	100
Oriflame Georgia LLC	Georgia	8,767	GEL	100	100
Special Trading Company Oriflame Caucasus	Georgia	62	GEL	100	100
Oriflame Kosmetik Vertriebs GmbH	Germany	10,911	EUR	100	100
Oriflame Hellas Sole Shareholder Ltd	Greece	4,741	EUR	100	100
Oriflame Hungary Kozmetika Kft	Hungary	2,454,825	HUF	100	100
Oriflame India Pvt. Ltd.	India	798,962	INR	100	100
PT Oriflame Cosmetics Indonesia	Indonesia	2,342,500	IDR	100	100
PT Orindo Alam Ayu	Indonesia	40,054,539	IDR	100	100
Oriflame Research & Development Ltd.	Ireland	2,331	EUR	100	100
Oriflame LLP	Kazakhstan	3,458,736	TEN	100	100
Oriflame Cosmetics LLC	Kosovo	3	EUR	100	100
Oriflame East Africa Ltd	Kenya	100	KES	100	100
Oriflame Cosmetics LLC	Kyrgyzstan	1,080	KGS	100	100
Oriflame Latvija S.I.A	Latvia	2,258	EUR	100	100
Oriflame Kosmetika UAB.	Lithuania	253	EUR	100	100
Oriflame Foundation	Luxembourg	0	EUR	100	100
Oriflame Kozmetika d.o.o	Macedonia	217,507	DIN	100	100
Oriflame Investments Ltd	Mauritius	0	EUR	100	100

Note 5 continued

Company	Country of incorporation	Capital in LC '000	Currency	Share capital held in %	Voting rights held in %
Myanmar Oriflame Company Ltd	Myanmar	69,250	MMK	100	100
Oriflame (Mexico) SA de CV	Mexico	13,613	MXN	100	100
Servicios Oriflame, SA de CV	Mexico	50	MXN	100	100
Oriflame International SRL	Moldova	8	MDL	100	100
Oriflame Mongolia LLC	Mongolia	151,526	TUG	100	100
Oriflame Kosmetika MN doo.	Montenegro	1	EUR	100	100
Oriflame Maroc SARL	Morocco	84,118	MAD	100	100
Oriflame Holdings BV.	Netherlands	67,627	EUR	100	100
Oriflame Nigeria Cosmetics Limited	Nigeria	48,000	NGN	100	100
Oriflame Norge A/S	Norway	1,696	NOK	100	100
Oriflame Cosmetics Pakistan (PVT) LTD	Pakistan	49,855	PKR	100	100
Oriflame Peru S.A.	Peru	10,581	PEN	100	100
Oriflame Poland SP z o.o.	Poland	946	PZL	100	100
Oriflame Products Poland SP z o.o.	Poland	39,810	PZL	100	100
Oriflame Property Investments SP z o.o.	Poland	5,700	PZL	100	100
Oriflame Cosmetics Ltda	Portugal	7	EUR	100	100
SC Cosmetics Oriflame Romania srl.	Romania	2,025	RON	100	100
Oriflame Cosmetics LLC	Russia	4,648,746	RUR	100	100
Cetes Cosmetics LLC*	Russia	3,233,321	RUR	100	100
Oriflame Kosmetika d.o.o.	Serbia	371,124	RSD	100	100
Oriflame Slovakia sro	Slovak Republic	100	EUR	100	100
Oriflame Kozmetika d.o.o.	Slovenia	11	EUR	100	100
Oriflame Cosmetics S.A.	Spain	160	EUR	100	100
Oriflame Lanka Private Ltd	Sri Lanka	555	SLR	100	100
Oriflame Cosmetics AB	Sweden	20,500	SEK	100	100
Oriflame Cosmetics AG	Switzerland	110	CHF	100	100
Oriflame Global Management AG	Switzerland	100	CHF	100	100
CETES Cosmetics AG	Switzerland	100	CHF	100	100
Oriflame East Africa Tanzania Ltd	Tanzania	1,000	TZS	100	100
Oriflame Cosmetics (Thailand) Ltd	Thailand	619,371	THB	100	100
Oriflame Management Asia Ltc	Thailand	20,000	THB	100	100
Oriflame Kozmetik Urunleri Ticaret Ltd Sirketi	Turkey	16,833	TRY	100	100
Oriflame Tunisie S.A.R.L.	Tunisia	200	TND	100	100
Oriflame East Africa Uganda Ltd	Uganda	5,000	UGX	100	100
Limited Liability Company Oriflame Ukraine	Ukraine	112,931	UAH	100	100
Oriflame Middle East DMCC	United Arab Emirates	50	AED	100	100
Oriflame Vietnam Ltd.	Vietnam	2,050	VND	100	100

In July 2017, SC "Oriflame Cosmetics" Ukraine, Ukraine a former subsidiary of the Group, was liquidated.

* In September 2017, Oriflame Products LLC, Russia, a subsidiary of the Group, was renamed to Cetes Cosmetics LLC.

6 • GOODWILL

The goodwill has been created at the time of the cross-border merger between OHAG and Oriflame Cosmetics SA which occurred on 30 September 2015 with retroactive effect on 1 July 2015. The goodwill is depreciated over 5 years.

Gross value (in EUR)	2017	2016
Balance as at 1.1.	294,622,702	378,800,617
Depreciation	(84,177,915)	(84,177,915)
Balance as at 31.12.	210,444,787	294,622,702

7 • SHARE CAPITAL AND AUTHORIZED CAPITAL

Share capital in the amount of CHF 83,630,948 consists of 55,753,965 registered shares at a par value of CHF 1.50.

The Board of Directors has been authorized to increase the share capital in an amount not to exceed CHF 8,355,000 through the issuance of up to 5,570,000 fully paid-in registered shares with a nominal value of CHF 1.50 per share by not later than 9 May 2019. Increases in partial amounts shall be permitted.

Statement of changes in equity for the period ended 31 December 2017 (in CHF)

Equity statement	Share capital	Capital contribution reserve	Other reserve from capital contribution	Treasury shares	Currency conversion reserves	Accumulated losses	Total shareholders' equity
Balance as at 1.1.	83,630,948	651,619,033	9,131,719	(107,040)	1,101,163	(31,927,248)	713,448,575
Loss for the period	-	-	-	-	-	(58,070,988)	(58,070,988)
Reallocation to capital contribution reserve	-	9,131,719	(9,131,719)	-	-	-	-
Release to other reserves	-	(112,250,000)	112,250,000	-	-	-	-
Dividend	-	-	(94,019,409)	-	-	-	(94,019,409)
Currency conversion reserves	-	-	-	-	12,156,465	-	12,156,465
Balance as at 31.12.	83,630,948	548,500,752	18,230,591	(107,040)	13,257,628	(89,998,236)	573,514,642

8 • LEGAL CAPITAL RESERVE

The legal capital reserve is converted into EUR using the historical foreign exchange rate. The legal capital reserve stated in CHF 566,731,343 is the relevant one regarding the tax free amount relating to the issuance of dividends.

9 • TREASURY SHARES

Since the cross-border merger between OHAG and Oriflame Cosmetics S.A., OHAG shares previously owned by Oriflame Cosmetics S.A. are presented as treasury shares.

The company holds 13,160 treasury shares with a nominal value of CHF 1.50 for a total of CHF 107,040.

During 2016, 87,156 treasury shares were delivered under the company's Share Incentive and Retention Plan. This release was accounted for at book value of CHF 653,670.*

Number of registered shares	2017	2016
Inventory as at 1.1.	13,160	100,000
Addition	-	316
Release related to share incentive plan	-	(87,156)
Inventory as at 31.12.	13,160	13,160

* 87,156 shares multiplied by the nominal value per share of CHF 1.5 and a share premium per share of CHF 6.0.

10 • MAJOR SHAREHOLDERS

The following shareholders owned at least 5 % of share capital as at 31 December 2017. Oriflame Holding AG became the ultimate holding company of Oriflame Group as from 19 June 2015.

Name	2017		2016	
	Number of shares	%	Number of shares	%
Af Jochnick BV	6,327,001	11.3	6,327,001	11.3
Robert and Alexander af Jochnick and family	5,433,283	9.7	5,433,283	9.7
Fourth Swedish National Pension Fund (AP4)	4,897,827	8.8	4,820,483	8.6
Jonas af Jochnick and family	4,362,898	7.8	4,362,898	7.8

11 • EQUITY OWNED BY EXECUTIVE MANAGEMENT AND THE BOARD OF DIRECTORS INCLUDING ANY RELATED PARTIES

Board of Directors

The significant shareholdings by the board of directors are listed below.

Name	2017		2016	
	Number of shares	%	Number of shares	%
Jonas af Jochnick and family	4,362,898	7.8	4,362,898	7.8
Robert af Jochnick and family	4,913,283	8.8	4,913,283	8.8
Alexander af Jochnick and family. Chairman	520,000	0.9	520,000	0.9

Executive management

The significant shareholdings by executive management are listed below.

Name	Position	2017		2016	
		Number of shares	%	Number of shares	%
Magnus Brännström	CEO	306,196	0.5	321,196	0.6
Gabriel Bennet	CFO	24,000	0.0	30,000	0.1
Jesper Martinsson	Senior Vice President and Head of Commercial Division and Deputy CEO	248,000	0.4	280,000	0.5

12 • SHARES GRANTED TO MEMBERS OF THE BOARD AND EMPLOYEE

During 2017, annual investment offers under OHAG's Share Incentive and Retention Plan (SIP) has been adopted by the board of directors.

The following information relates to the allocation of investment rights in 2017 (valued at fair value at grant date of EUR 33.34). It details the maximum amount of achievement shares that can be awarded to OHAG employees in relation to the 2017 investments under the SIP.

	Maximum no of shares	Maximum value
Allocated to members of the board	–	-
Allocated to OHAG employees	129,600	4,320,864
Total	129,600	4,320,864

13 • DIVIDEND INCOME

A dividend of EUR 32,000,000 has been distributed by Oriflame Cosmetics Global S.A. in 2017.

14 • PERSONNEL EXPENSES AND ACCRUED EXPENSES

The increase in personnel expenses and accrued expenses is mainly driven by higher bonuses, as a consequence of the strong 2017 year-end results of the Oriflame Group.

15 • FINANCIAL EXPENSES AND INCOMES

The financial income is mainly driven by the interest income on loans to group companies.

The interest rate on the loans was increased from 1% in 2016 to 3.68% starting from 01/01/2017.

16 • NON-RECURRING INCOME AND EXPENSE

The non-recurring income in 2017 is related to the write-off of a VAT liability to the Luxembourg authorities for Q3/2015 related to Oriflame Cosmetics SA, Luxembourg, the former top holding entity. The non-recurring expenses in 2016 are resulting from the cross-merger with Oriflame Cosmetics SA in 2015 when the domicile of the Group was changed from Luxembourg to Switzerland.

17 • LOANS TO GROUP COMPANIES

The decrease in 2017 is mainly driven by the partial repayment of the loan granted to Oriflame Cosmetics Global S.A in 2016 in the amount of EUR 100,000,000.

18 • DIRECT TAXES

From 2017 onward, capital tax expenses are included in other operating expenses, while in 2016 they were presented as direct taxes. The figures for 2016 have been updated to align with this new presentation.

19 • PROVISION FOR OUTSTANDING DIVIDENDS FROM CAPITAL CONTRIBUTION RESERVES

The provision for outstanding dividends from capital contribution reserves of CHF 16,088,190 is related to the remaining dividend approved during the AGM held on 9 May 2017 which will be paid in February 2018.

Proposed appropriation Oriflame Holding AG, Schaffhausen

Proposed Appropriation of Available Earnings 2017	EUR	CHF
Accumulated loss brought forward	(30,200,918)	(31,927,248)
Loss for the period	(52,242,862)	(58,070,988)
Currency conversion reserves	–	13,257,628
	(82,443,780)	(76,740,608)

The Board of Directors proposes to the General Meeting of Shareholders to carry forward the accumulated loss.

Proposed dividend distribution out of capital contribution reserve 2017	Capital contribution reserve		Other reserve from capital contribution	
	EUR	CHF	EUR	CHF
The Board of Directors proposes to the General Meeting of Shareholders the following dividend distribution out of capital contribution reserve				
Balance as of 31 December 2017	527,559,090	548,500,752	20,914,416	18,230,591
Proposed release of capital contribution reserve to other reserve from capital contribution	(183,729,277)	(215,000,000)	183,729,277	215,000,000
Balance to be carried forward	343,829,813	333,500,752	204,643,693	233,230,591



Statutory Auditor's Report

To the General Meeting of Oriflame Holding AG, Schaffhausen

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Oriflame Holding AG, which comprise the balance sheet as at 31 December 2017, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements (pages 131 to 138) for the year ended 31 December 2017 comply with Swiss law and the company's articles of incorporation.

Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority

We have determined that there are no key audit matters to communicate in our report.

The Board of Directors proposes that (i) CHF 215,000,000 of the company's "capital contribution reserve" (the Capital Contribution Reserve) be released and allocated to "other reserve from capital contribution" (the Dividend Reserve), (ii) a dividend in the amount of EUR 2.60 per outstanding share of the company be distributed out of, and limited at a maximum to the amount of, such Dividend Reserve and paid in four instalments as follows: EUR 1.40 to the shareholders of record on 9 May 2018, EUR 0.40 to the shareholders of record on 15 August 2018, EUR 0.40 to the shareholders of record on 15 November 2018 and EUR 0.40 to the shareholders of record on 15 February 2019, and (iii) any amount of the Dividend Reserve remaining after payment of the final instalment be automatically reallocated to the Capital Contribution Reserve. Dividend payments shall be made with respect to the outstanding share capital of the company on the record date for the applicable instalment, which amount will exclude any shares held by the company or any of its direct or indirect subsidiaries.

The Board of Directors is seeking shareholder approval of a distribution of a dividend out of the Capital Contribution Reserve in an aggregate amount of EUR 2.60 per outstanding share of the company, to be paid in four instalments as set out above. The payment is expected to occur within seven business days following each dividend record date. Unlike a dividend out of available earnings, a distribution out of the Capital Contribution Reserve in the form of a dividend is not subject to Swiss federal withholding tax.

The dividend payments will be made with respect to the outstanding shares of the company on the record date for each applicable instalment, however excluding any shares held by the company or any of its direct or indirect subsidiaries. The number of shares eligible for dividend payments may change due to the repurchase of shares, the sale of treasury shares or the issuance of new shares, including (without limitation) from the conditional and the authorized share capital reserved for the employee share incentive plan.

The Board of Directors is proposing that CHF 215,000,000 of the existing additional paid-in capital (which under Swiss law is referred to as Capital Contribution Reserve) be made available for purposes of the EUR 2.60 dividend per share by way of a release and allocation to the Dividend Reserve. Such allocation is required to be in CHF. Based on the number of shares outstanding as of 31 December 2017, the amount of the proposed aggregate dividend would be EUR 144,926,093. Accordingly, the Dividend Reserve of CHF 215,000,000 (EUR 183,729,277 based on the currency conversion rate as of 31 December 2017 of 1.1702 EUR/CHF) exceeds the aggregate dividend amount by about 25%.

The Board of Directors is proposing this excess amount in order to create a buffer to minimize any risk that any EUR-CHF exchange rate changes would reduce the EUR amount of the Dividend Reserve available for distribution. To clarify, the Board of Directors do currently not envisage any further issuance of new shares before the 2018 annual general shareholders' meeting other than the issuance of 688,401 additional shares on 20 February 2018 to be used as achievement shares related to the 2014 and 2015 investments under the company's Share Incentive and Retention Plan, which vests during 2018.

In the unlikely event that, notwithstanding the allocation of this excess amount to the Dividend Reserve, the Dividend Reserve would for any reason be exceeded upon the occurrence of the payment date for a dividend instalment, the company would be required under the terms of the proposed shareholder resolution to adjust the relevant instalment downward on a pro rata basis so that the aggregate payments do not exceed the Dividend Reserve. In any event, the dividend payment will not exceed a total of EUR 2.60 per share.

Responsibility of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

KPMG AG



Hélène Béguin
Licensed Audit Expert
Auditor in Charge



Kathrin Schünke
Licensed Audit Expert

Zurich, 10 April 2018

KPMG AG, Badenerstrasse 172, PO Box, CH-8036 Zurich

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Board and management

Board of Directors



**Alexander
af Jochnick**

Chairman of the Board as of 2014. Board member as of 2007. Born in 1971.

Member of the Remuneration Committee. Member of the Audit Committee. Member of the Nomination and Governance Committee.

BSc Stockholm School of Economics (Sweden).

Chairman of Oriflame Foundation. Board member of Postkodföreningen, Godel Sverige AB, Credus Management AB, SSE Russia Education AB and Af Jochnick BV.

Shareholding in Oriflame at 31 December 2017*: 520,000.

Independent from the company but not independent from its major shareholders.



**Robert
af Jochnick**

Board member as of 1970. Born in 1940. Co-founder of Oriflame.

LLB Stockholm University (Sweden), BSc Stockholm School of Economics (Sweden).

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

Shareholding in Oriflame at 31 December 2017*: 5,433,283**

Not independent from the company nor its major shareholders.



**Jonas
af Jochnick**

Board member as of 1970. Born in 1937. Co-founder of Oriflame.

LLB Stockholm University (Sweden), MBA Harvard Business School (US), Dr h c Stockholm School of Economics (Sweden).

Board member of Medicovert Holding S.A., Celox Holding AB and the Jonas and Christina af Jochnick Foundation.

Shareholding in Oriflame at 31 December 2017*: 4,362,898.

Not independent from the company nor its major shareholders.



**Magnus
Brännström**

Chief Executive Officer (CEO) & President. Board member as of 2005. Born in 1966.

MSc Uppsala University (Sweden).

Chairman of World Federation of Direct Selling Associations. Board member of Ferronordic Machines AB and Profoto AB.

Shareholding in Oriflame at 31 December 2017*: 306,196.

Not independent from the company due to his role as CEO & President.



**Mona
Abbasi**

Board member as of 2016. Born in 1973.

University education from Stockholm University (Sweden). Executive education from Stockholm School of Economics (Sweden) and Harvard Business School (US).

Senior Vice President, Group Communications, Brand & Marketing at Husqvarna Group.

No other board assignments.

Shareholding in Oriflame at 31 December 2017*: 0.

Independent from the company and its major shareholders.



**Anders
Dahlvig**

Board member as of 2010. Born in 1957. Member of the Nomination and Governance Committee.

BSc Lund University (Sweden), MA Economics University of California (US). Chairman of the Board of Inter Ikea Holding BV. Board member of Kingfisher plc, Hennes & Mauritz AB, Axel Johnson AB, Resurs Bank AB and Pret à Manger.

Shareholding in Oriflame at 31 December 2017*: 13,650.

Independent from the company and its major shareholders.



**Anna
Malmhake**

Board member as of 2014. Born in 1966.

BSc Stockholm University (Sweden).

Chairman and CEO of The Absolut Company AB.

Shareholding in Oriflame at 31 December 2017*: 0.

Independent from the company and its major shareholders.



**Christian
Salamon**

Board member as of 1999. Born in 1961. Member of the Audit Committee.

MSc Royal Institute of Technology (Sweden), MBA Harvard Business School (US).

Chairman of OSM Holding AB and NCAB Holding AB. Board member of Lamiflex Group AB, Oresa Ventures S.A. and the Sweden-America Foundation Advisory Board member of Sustainable Technologies Fund. Investment Committee member of Fagerberg & Dellby and eEquity. Advisory Board Chairman of Fabryo-Atlas Group.

Shareholding in Oriflame at 31 December 2017*: 16,500.

Independent from the company and its major shareholders.



**Karen
Tobiasen**

Board member as of 2016. Born in 1965. Member of the Remuneration Committee. Member of the Audit Committee.

BA Copenhagen Business School, E*MBA SIMI, Msc Gestalt Akademin, Stockholm.

Chief People Officer & Head of Group People at Nordea Bank AB (publ).

No other board assignments.

Shareholding in Oriflame at 31 December 2017*: 0.

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.

** Also includes the Alexander af Jochnick and family holding as per the IFRS definition of related parties.

Corporate committee



Magnus Brännström
 Chief Executive Officer (CEO) & President. Member of the Board of Directors.
 Born in 1966.
 Chairman of World Federation of Direct Selling Associations. Board member of Ferronordic Machines AB and Profoto AB.
 Shareholding in Oriflame at 31 December 2017*: 306,196.



Jesper Martinsson
 Senior Vice President & Head of Commercial Division, Deputy CEO.
 Born in 1966.
 Board member of several Oriflame companies.
 Shareholding in Oriflame at 31 December 2017*: 248,000.



Gabriel Bennet
 Chief Financial Officer (CFO).
 Born in 1968.
 Board member of Smedbo AB and several Oriflame subsidiary companies.
 Shareholding in Oriflame at 31 December 2017*: 24,000

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

Group management



Gabriel Bennet
 Chief Financial Officer (CFO), Member of the Corporate Committee



Jesper Martinsson
 Senior Vice President & Head of Commercial Division, Deputy CEO, Member of the Corporate Committee



Magnus Brännström
 Chief Executive Officer (CEO) & President, Member of the Corporate Committee



Johan Rosenberg
 Senior Vice President Global Business Areas and Franchisees



Michael Cervell
 Senior Vice President Group Strategy & Business Development



Antonia Simon-Stenberg
 Vice President Sustainability, Quality & Packaging



Thomas Ekberg
 Senior Vice President & Head of Global Business Area Asia & Turkey



Financial calendar 2018

- 2018 Annual General Meeting: 4 May 2018
- First quarter 2018 report: 4 May 2018
- Second quarter 2018 report: 7 August 2018
- Third quarter 2018 report: 7 November 2018
- Fourth quarter 2018 report: 14 February 2019

Distribution principles

The Annual Report is available at www.oriflame.com, in addition to interim reports, previous annual reports and other financial material.

Oriflame Investor Relations contact

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