ANNUAL REPORT 2010

ORIFLAME

SWEDEN

QUICK GUIDE

COMPANY OVERVIEW

Oriflame in brief

Business model

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

A sales force of approximately 3.5 million independent consultants has seized this opportunity and is successfully marketing Oriflame's wide portfolio of Swedish, natural, innovative beauty products, together creating annual sales exceeding €1.5 billion.

History in brief

Oriflame was founded in Sweden in 1967 by the brothers Jonas and Robert af Jochnick and Bengt Hellsten. They wanted to give people the opportunity to benefit from good skin care and attractive cosmetics, and they wanted their products to be inspired by the natural beauty that the world associates with Sweden.

Rather than investing in a chain of shops, they decided to move the retail operations into the homes of Swedish consumers. They had sales consultants all over the country, and each and every one of them had the heart and ambition of an entrepreneur. The products were distributed to their homes, and from day one they had a network of potential customers in their friends, colleagues and neighbours.

For more than 40 years, Oriflame has remained true to its original concept of natural Swedish cosmetics and an entrepreneurial culture. Today, Oriflame is one of the fastest growing international beauty companies, selling direct in more than 60 countries worldwide.

Business strategy

Oriflame's strategic focus can be summarised in these seven key points:

- Low entrance fee, credit offered and no stock required – easy to join and no risk
- Wide portfolio of Swedish, natural, innovative, high-quality beauty products at affordable prices
- Frequent, dynamic and attractive catalogues, with many new products that make selling easy
- Flexible and reliable ordering, delivery and payment system – easy to do business with
- Personal growth and development through Oriflame Academy and SARPIO (Sales and Recruitment Process in Oriflame) – at no cost
- Unlimited earning and career opportunity
- Enjoy a direct selling company with a human touch and a sense of belonging to a friendly, energetic and fun global community

By continuously improving on its seven key areas, Oriflame shall attract an increasing number of consultants. By consistently evaluating and prioritising, with the consultants in focus, management shall ensure that the allocation of resources is optimised.

Market entries

1967	1968	1969	1970	1972	1978	1985	1986
Sweden Denmark	Finland	Norway	UK	Nether- lands	Spain	Portugal	Indonesia

PRODUCT OFFER

Oriflame's product offering builds on more than 40 years of skin care and cosmetics expertise – combining the wisdom of nature with the best of science. The Company provides a wide assortment of distinct products at affordable prices, following its main product offer principles:

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

Skin Care

Oriflame has a wide range of innovative skin care products, developed and tested by the R&D facilities. Oriflame Skin Care offers proven, effective solutions to everyday skin care needs, with facial moisturisers, anti ageing and hand & body products.

Colour Cosmetics

Oriflame's colour portfolio offers a wide and sophisticated range of products, with attractive formulations and trendy packaging, that enhances every woman's natural beauty – lipsticks, foundations, mascaras, eye shadows, nail care and other make-up products.

Fragrance

Oriflame offers a qualitative fragrance portfolio ranging from exclusive to more moderately priced products, for men, women and the home. Inspiration and trends come from France and all fragrances are developed in Sweden in collaboration with the most prestigious French perfumers to ensure superior quality, innovation and performance.

Personal & Hair Care

Oriflame offers an extensive range of high performance hair and body care products to meet daily needs for hair care, oral and feminine hygiene, bath and shower, deodorant and foot care.

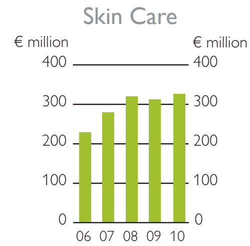
Accessories

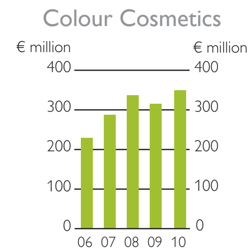
Oriflame's accessories and various other fashion products target women, men and kids, offering many different trendy products such as hair brushes, hand bags, sunglasses, bathroom accessories, interesting seasonal gifts as well as a range of high-fashion must-haves.

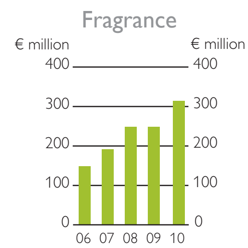
Wellness

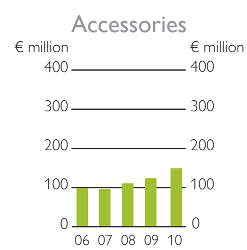
Wellness by Oriflame has been carefully designed in partnership with Swedish scientists and nutritional experts to bring innovative, safe and high-quality products that bring out beauty from within, in the areas of vitamins and nutritional shakes.

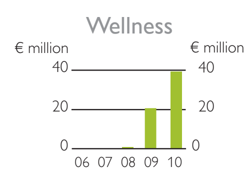
SALES GROWTH





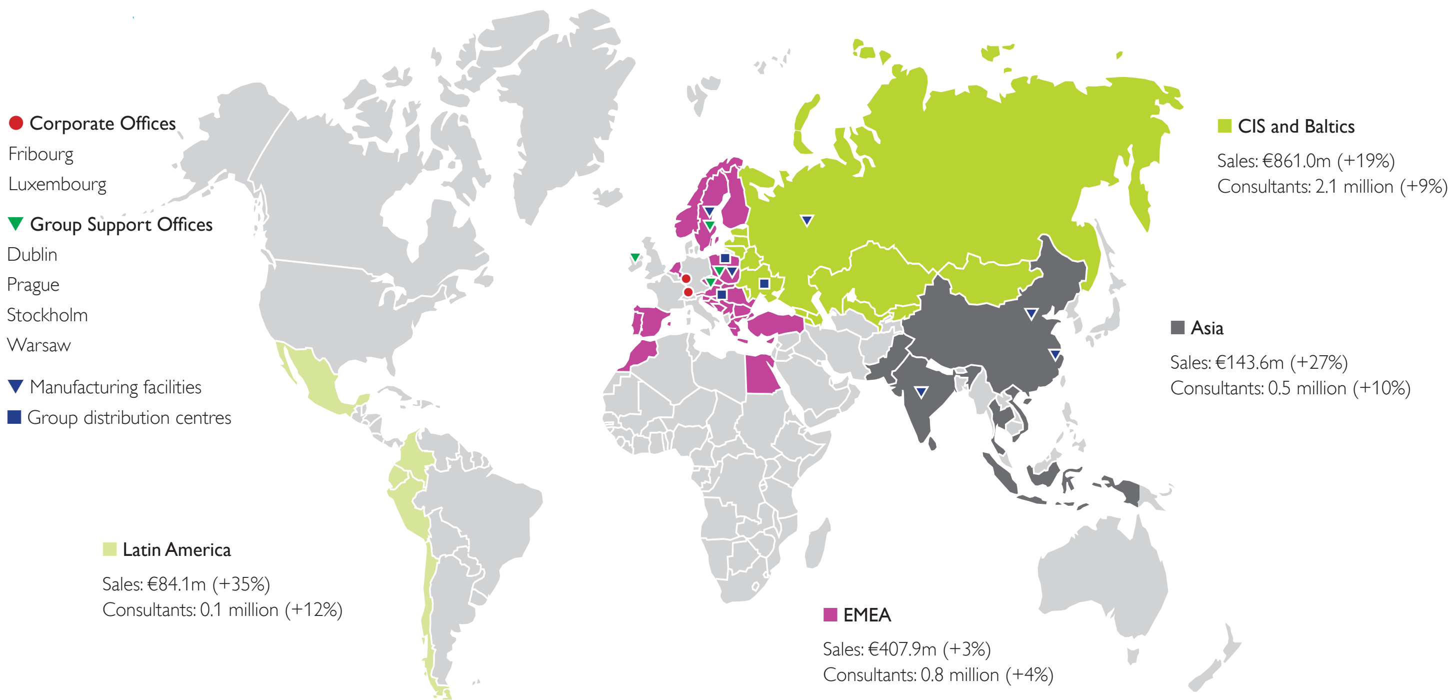






1989	1990	1991	1992	1993	1994	1995	1996
Chile	Czechoslovakia	Poland Hungary Mexico	Russia Turkey Latvia	Ukraine Slovakia Greece	Bulgaria	Peru Lithuania Romania	Macedonia Ecuador Croatia India

MARKET



Oriflame is present in more than 60 countries and one of the market leaders in more than half. Beauty products and direct sales are a compelling combination. The cosmetics industry is recognised as one of the fastest-growing consumer products sectors and it is the most important sector for the direct sales industry, representing about one-third of total global direct sales. Direct sales as a channel is estimated to have more than a fifth of the total cosmetics and toiletry market in Eastern Europe. This is higher than the global average of approximately 11 percent. Being a cosmetics company selling direct means that Oriflame competes with major cosmetics manufacturers as well as other companies selling direct – both for end-consumers and for sales consultants. Some of the largest competitors are the global manufacturers Procter&Gamble, L'Oréal, Beiersdorf and Unilever, as well as direct sellers such as Avon and Mary Kay.

1997	1998	2000	2001	2002	2003	2005	2006	2008
Estonia Morocco Egypt Slovenia Sri Lanka	Azerbaijan Colombia Bosnia	Kazakhstan Thailand Georgia	Serbia & Montenegro	Mongolia	Armenia Moldova Vietnam	Belarus	China Iran	Pakistan Kyrgystan

FINANCIAL OVERVIEW

Long-term financial targets

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

Financial achievements 12 months 2010

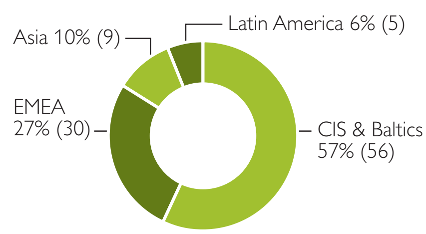
- Local currency sales increased by 8 percent and Euro sales increased by 15 percent to €1,513.6 million (1,316.6).
- Adjusted operating margins amounted to 11.1 percent (11.1), resulting in an adjusted operating profit of €168.1 million (146.8).
- Adjusted net profit amounted to €128.3 million (101.7).
- Adjusted EPS after dilution amounted to €2.25 (1.78).
- Cash flow from operating activities amounted to €90.3 million (131.7).

Where stated, profits are adjusted for restructuring costs in the EMEA region and Iran impairment.

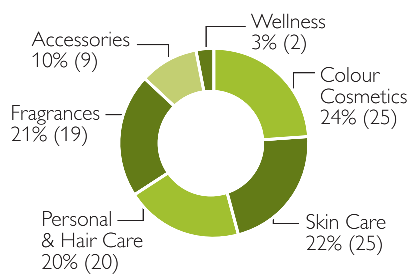
Outlook 2011

- Operating margins are expected to improve compared with 2010, while sales growth for 2011 is expected to be 5–10 percent in local currency.

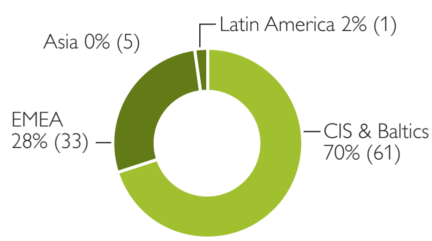
Regional sales 2010



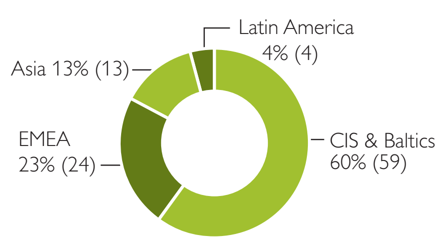
Sales by product category 2010



Regional operating profit 2010



Sales force 2010



Key figures

€ million unless stated otherwise	2010	2009
Sales	1,513.6	1,316.6
Gross profit	1,002.5	874.8
Gross margin, %	66.2	66.4
EBITDA	184.4	167.0
Adjusted operating profit	2) 168.1	1) 146.8
Adjusted operating margin, %	2) 11.1	1) 11.1
Adjusted net profit	2) 128.3	1) 101.7
Return on capital employed, ROCE, %	34.4	35.9
Cash flow from operating activities	90.3	131.7
Cash flow from operating activities, per share, €	1.58	2.31
Equity/assets ratio, %	29.8	25.7
Net interest-bearing debt	3) 200.5	160.0
Interest cover	5.6	6.1
Adjusted earnings per share, diluted, €	2) 2.25	1) 1.78
Closing sales force ('000)	3,767.1	3,468.1
Average sales force ('000)	3,515.2	3,247.2
Average number of full-time equivalent employees	8,353	8,281

1) Before restructuring costs in the EMEA region of €1.3m.
2) Before restructuring costs in the EMEA region of €0.7m and the effect on operating profit from the Iran impairment of €10.1m.
3) Net interest-bearing debt includes US loan fair value. The net interest-bearing debt would be €195.4m when US loan is measured at €/USD exchange rate of €1.36, reflecting the value of the corresponding currency swap.

Oriflame Cosmetics top 10 shareholders as at 31 December 2010

	Shares	Capital and votes, %
Lazard Asset Management LLC (1)	6,904,079	12.1
Stichting af Jochnick Foundation	6,016,001	10.6
JP Morgan Asset Management Ltd. (2)	5,059,081	8.9
Robert & Alexander af Jochnick and family	4,392,732	7.7
Jonas af Jochnick and family	4,130,400	7.2
Swedbank Robur Fonder AB (3)	2,541,621	4.5
Baillie Gifford & Co (2)	2,215,561	3.9
Jupiter Asset Management Ltd. (UK) (2)	2,109,956	3.7
Templeton Investment Counsel LLC (2)	1,367,353	2.4
SEB Investment Mgt / Trygg Liv (3)	818,721	1.4
Other	21,424,722	37.6
Total	**56,980,227**	**100**

Sources:
1) Disclosure notice received by Oriflame from the company on February 2011
2) Capital Precision
3) Euroclear

The share

- Oriflame Cosmetics was introduced on the NASDAQ OMX Nordic Exchange on 24 March 2004.
- On 31 December 2010, the number of shareholders and SDR holders was 8,483. Each SDR represents one share.
- During 2010, an average of 270,819 shares were traded per day on the NASDAQ OMX Nordic Exchange.
- The last price paid on 31 December 2010 was SEK 354.00 giving Oriflame a total market capitalisation of SEK 20.2 billion.

Dividend proposal

- Oriflame's Board of Directors will propose to the 2011 AGM, a dividend of €1.50 (€1.25) per share, amounting to €85.5 million, corresponding to 67 percent of adjusted net profit.

STATEMENT FROM THE CEO

Strengthening our business in a challenging year

2010 was a more difficult year than expected with external as well as internal challenges. The recovery after the financial crisis has taken long time in several of our markets, especially in southern Europe, and has meant a more unpredictable market than we are accustomed to. In Russia and Indonesia, new product registration laws have been introduced that affected our sales negatively in the short term, and we left Iran after the authorities shut down our operations in the country. In the beginning of the year we were struggling with offering good service levels to our sales consultants. During all of 2010 we took several initiatives to improve the situation, which we also saw the result of in the second half of the year.

As a whole, we still feel that we managed relatively well compared with our competitors, having increased our market shares in key markets. We addressed weak demand during the year with increased sales promotions, which to some extent was at the expense of margins. For the year, we were able to grow our sales by 8 percent in local currency and 15 percent in euro, while remaining profitable with an operating margin of just over 11 percent.

Turbulence and growth – part of our everyday operations

With many challenges behind us, still more lie ahead. This is part of what Oriflame does every day as a consequence of our strategy and business model, which, coupled with an attractive product offering and a strong brand, are also our strength. Since the very beginning more than 40 years ago, we have operated in emerging markets that offer potential but where changes and uncertainty are at times a normal condition. Geographical diversity, with operations in over 60 markets, especially fast-growing developing countries, allows us to counterbalance risks and at the same time achieve a high growth rate.

The fact that we have gotten used to turbulence doesn't mean that critical events don't affect us. The shutdown of our operations in Iran was a difficult time for everyone involved, and we are carefully analysing the events there to learn a lesson for the future. But I can unequivocally say that we will continue to offer people in CIS, Africa, Asia, Latin America and other exciting future markets the opportunity to change their lives. Despite potential obstacles along the way, we see the long-term opportunities for strong growth and development for the company – and for the individuals who decide to join us.

Investing in long-term growth

Considering that 2010 was a year of special challenges, we are proud to have been able to continue to drive important long-term issues.

We worked toward our aim of being closer to our customers, including extensive efforts to shorten lead times, normalise inventory levels and improve supply chain efficiencies. We began construction on a new production unit outside Moscow, which will open in 2012, and established two new distribution centers in Budapest, Hungary and Kiev, Ukraine.

During the year we intensified our branding work. We developed a new logo and a new payoff – Oriflame Sweden. At the same time we became a sponsor of the Women's Tennis Association (WTA) tour to strengthen our brand in a way that we feel perfectly matches what Oriflame wants to stand for: charismatic, driven women who want to accomplish something big on their own.

In connection with the branding work, we articulated our values using the attributes Natural, Ethical and Progressive, although they have always been fundamental to Oriflame. It was natural, therefore, to take the next step in our sustainability work during the year by adopting a new long-term environmental strategy. The work plan formulated by the board includes concrete actions and measurable environmental goals throughout the value chain. We are also establishing a better structure for charitable work through a central organisation.

Just as different cultures are part of our operations, new ideas and channels are as well. We see the growth of social networks on the Internet as a natural extension of Oriflame's direct sales concept and a new sales opportunity. The Internet, social media and mobile applications are becoming increasingly important channels for Oriflame's branding work: in recruiting, leadership development and sales. Oriflame will continue to invest in these new channels through improved skills and by creating tools. Regardless of the channel, however, it's what consumers think of Oriflame and our products that determines whether or not they buy our products, which is why we constantly have to strengthen our brand and product offering.

Sustainable business model

In 2011 our focus is clearly on strengthening profitability, which we will achieve by avoiding last year's extraordinary sales promotions, controlling inventory levels, improving the service level and increasing gross margins. We are aware of the challenges we face, including in the form of increased commodity prices and political concerns in certain markets. But our conviction that Oriflame's business model is sustainable is stronger than ever. With 40 years on the market and seven as a publicly listed company, Oriflame is just beginning its journey. And with all of its amazing employees and consultants, helping each other and themselves to fulfilling each and every one's individual dream, I am convinced that this journey will be long and successful.

Magnus Brännström
Chief Executive Officer

THIS IS ORIFLAME

THE ORIFLAME BRAND

– NATURAL, PROGRESSIVE AND ETHICAL

Oriflame is passionate about fulfilling dreams. The integrated beauty offer and business opportunity is what makes the Oriflame brand unique. It's not just about beauty products or direct selling, it's the combination. The brand's sense of success and self-fulfilment should be experienced at all touch points along the Oriflame journey. People should feel the vibrant, positive energy reflected by this inspirational and approachable brand.

The core identity

Oriflame positions itself as a cosmetics company selling direct, rather than a direct selling company offering beauty products. The essence of the brand is the Swedish heritage of being natural, progressive and ethical. Oriflame strives to use natural ingredients and let nature inspire products, processes and people. Progress is about pursuing better solutions, utilising science and creating innovation, as well as being in tune with times in terms of fashion and trends. Acting ethically is about staying honest, transparent and fair in all relationships and interactions. It is also about striving for sustainability in the business model to minimise impact on the environment and the ecological system.

Staying true to the heritage

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

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

More than 40 years later, Oriflame is one of the world's fastest growing international beauty companies, still remaining true to the original concept of Swedish cosmetics in a natural, progressive and ethical way.

A global brand built locally

The brand is becoming an increasingly important factor in the purchasing decision. Consumers are not just choosing a product; they are choosing an identity. The brand must represent the customer's personality and lifestyle, yet be perceived as genuine and inspirational. In the future, the consumer will remain loyal to the strong and consistent brands that manage to stand out from the information clutter. In the light of this development, companies must become better at motivating customers to choose not only a certain product over another, but rather their brand specifically. A few years ago Oriflame initiated a branding process to define content and to further develop its visual expression, including the logotype. Oriflame is proud to present its new logotype that incorporates the word Sweden as a symbol of the Company's heritage and a source of inspiration, reminiscent of the core values natural, progressive and ethical. Another important part of the branding process work is to assess global awareness, perception and attractiveness of the Oriflame brand, so called "global brand tracking". In Russia for instance, Oriflame was the biggest cosmetics brand in 2010 with a very high level of awareness and attractiveness, while in some other markets there is a lower level of awareness and a lot of potential to find more brand adopters.

"The strategy is to build a global brand locally.

The strategy is to build a global brand locally. The communication can be fine-tuned with a specific target group in mind, emphasising what is attractive in a specific market, but the perception of Oriflame must remain the same globally, it is the only way to maintain a strong brand identity. To become the number one beauty company selling direct and to stage a brand experience, Oriflame will empower the organisation through a brand identity system, a holistic approach and last but not least, through brand consistency. Oriflame has initiated several activities to promote the brand, one of which is the recent partnership with the Women's Tennis Association (WTA), which became official 2011. The WTA tour inspires women around the world to look great, have fun and be the best they can be – a perfect context for the Oriflame brand.




I became an Oriflame consultant nearly five years ago and I can't even begin to describe how glad I am that I grasped the opportunity. I've been able to provide things for myself and my daughters that I never thought possible, all thanks to Oriflame.

Nadia Meutia
Indonesia

ORIFLAME AND THE WOMEN'S TENNIS ASSOCIATION – A PERFECT MATCH

As of 2011, Oriflame is the proud sponsor of the Women's Tennis Association (WTA). Women's tennis combines the perfect balance of athleticism and glamour. Through this new partnership, Oriflame wants to inspire women around the world to look great, have fun and be the best they can be. And with players from 96 countries it is a truly global sport, fitting perfectly with Oriflame's international business.

During 2010, five million people attended tennis events and hundreds of millions watched 7,000 hours of premium television time devoted to the sport. Oriflame is the WTA's official cosmetics partner in Europe, Russia and the Common wealth of Independent States, the Middle East and Africa with a significant presence at 22 tour events across these regions. The sponsorship involves high-visibility signage, branding and both traditional and digital marketing rights.

PROUD SPONSOR OF SUCCESSFUL WOMEN

The stars of the WTA, such as Venus and Serena Williams, Maria Sharapova, Na Li, Jelena Jankovic, Shahar Peer, Kim Clijsters and Caroline Wozniacki, among many others, are probably the most visible, respected and glamorous sportswomen in the world. That is why they are perfect ambassadors for Oriflame. The same passion, ambition and guiding principles that drive and inspire Oriflame are embodied in the careers and personalities of the WTA players. It's about fulfilling dreams, reaching your full potential, and living life with energy, optimism and joy. So by sponsoring the WTA, we are sponsoring so much more than women's tennis, we are sponsoring the inner potential of every woman to be successful, confident and happy.

MAKE MONEY TODAY AND FULFIL YOUR DREAMS TOMORROW™

Some people think Oriflame is a cosmetics company. That is true – Oriflame does sell beauty products. In fact, Oriflame sells beauty products to millions of people all over the world. But that is not really what it is all about. Oriflame offers people a chance to change their lives – whether it is entrepreneurial challenges for the consultants, attractive career opportunities for the employees or unique shopping experiences for the customers – Oriflame's business is about making money and fulfilling dreams.

Attractive awards and social benefits

Oriflame launched its direct sales method in 1967 – when the Company was founded as a vital part of its innovative business concept. Since then, Oriflame has given millions of people in Russia, Europe, Asia, South America and Africa the opportunity to start their own business, often in countries where the freedom to do business was discouraged or restricted to a self-appointed elite. In that sense, Oriflame has helped tear down walls. Oriflame built the first cosmetics factory in Warsaw after the fall of the Berlin wall, was early to enter countries such as India and one of the first companies to be given a direct sales licence in China.

Oriflame's business model has proven its resilience, sustainability and validity for more than 40 years – in emerging, as well as mature, markets. The key drivers, such as being your own boss, setting your own goals, the low barriers of entry and exit, the lack of discrimination regardless of one's sex, ethnicity, age, education, physical condition or financial resources, are all in line with a growing population of entrepreneurs that is less dependant on secure employments.

Although the reasons for joining may vary among the many sales consultants in the more than 60 countries where Oriflame is represented, most of them agree that Oriflame offers attractive financial rewards as well as social benefits, i.e. the possibility to look great, make money and have fun. Some join as a way of supporting their family, while building a business and fulfilling a career dream. Others see it as a way to achieve a more flexible life or make extra money while studying, being in between jobs or simply extending one's social life. Consultants also join in order to save money through discounted purchases of cosmetics and personal care, by enjoying a discount valid for themselves and their families. The flexibility of the system means that consultants decide for themselves what they want to achieve by joining Oriflame.

Becoming a sales consultant

Becoming a sales consultant is easy and requires no investments or long-term commitments. Sales consultants can make money the same day they join. After a modest fee has been paid, a starter kit is provided. Oriflame offers a variety of training programmes for consultants, ranging from presentation techniques to product knowledge and training sessions in make-up techniques, etc. Advanced training is provided through the Oriflame Academy, most of which is free of charge. The core of the Academy is based on physical meetings held by consultants at leadership level, while more advanced modules are predominantly held by employed sales management. Oriflame is currently piloting online versions of these training courses and expect these to grow in the future as an important complement to the physical meetings. Oriflame offers a wide portfolio of innovative Swedish cosmetics, inspired by nature and using the latest science, at affordable prices – all presented in powerful catalogues. A sales consultant orders products at a reduced price level, the consultant price, and sells to customers at catalogue price. Consultants, who invite others to join Oriflame and build a sales team, earn additional income on the team's sales. Sales consultant compensation is based on the sales volume of Oriflame products.

> *"Sales consultants can make money the same day they join.*

A Success Plan rewards sales consultants for their own sales, as well as those of any consultant within their network. It provides an incentive to maximise network sales and to enlist new consultants to grow the scope of their network. Apart from the financial rewards, successful sales consultants and network builders are rewarded with Senior Manager and Director titles depending on their achievements. Every year Oriflame invites the best sales consultants to major international conferences in exotic locations where key initiatives are launched and new products are presented.

Equally important, the conferences provide a venue for leaders to exchange ideas with top management and between themselves. Last year's so called Gold Conference located in Malta hosted 4,800 leaders from EMEA, CIS and the Baltics. Oriflame has been awarded several times for these extraordinary conference events.

“Thanks to Oriflame I’ve been able to create a lifestyle of my own – one that I’m proud of. I get to meet all these wonderful people who inspire me. I love feeling independent and appreciated.

Agata Bontkiewicz,
Poland

Online support tools increasingly important

The Oriflame catalogue is how the brands and products come to life for Oriflame's consultants and consumers. The catalogues are literally shops without walls, providing the consultants with their most important, tangible sales tool – making the whole difference between good sales and great sales. By providing the ultimate shopping experience to consumers, the Oriflame catalogue supports the business opportunity to its consultants. The stronger the consumer offer, the greater the potential to sell and grow the business.

> ***"Online social networks are becoming significant grounds for sales and recruitment activities.***

Alongside the catalogue, online social networks are becoming significant grounds for sales and recruitment activities, supported by PR, events, leaflets, posters in service centres and, for major launches in key markets – TV, print and billboards. Around 50 percent of the sales force uses the online services and more than half of all orders are placed through the online ordering system. As demand for online availability increases the sales force is provided with new tools that allow them to continue their business activities in this environment, such as phone and Ipad applications, virtual stores on Facebook and a channel on Youtube.

Sales consultants are offered a number of tools to help them succeed, coordinated in SARPIO – Sales and Recruitment Processes in Oriflame. SARPIO is the global platform for processes, training and communication. It has been developed in order to offer consultants support in developing and managing themselves and their businesses, while ensuring that they convey the Oriflame brand in a consistent way. In 2009, Oriflame launched a new management tool for the sales force in most markets. This tool helps sales consultants to track performance of their network and identify action areas that can improve business effectiveness. It also improves communication with the sales force.

Joining Oriflame has changed my life. Being part of the Oriflame experience, fulfilling my dreams and helping others succeed, has turned out to be a true passion and a great business opportunity.

Mariela Elorduy Blackaller
Mexico

OUR PRODUCTS

THE WISDOM OF NATURE WITH THE BEST OF SCIENCE

Oriflame presents a wide product portfolio with eternal favourites and a flow of exciting news, affordable for many. Customers are offered over 900 cosmetic products, more than a third of which were launched during the past year.

Oriflame's products are developed using cutting-edge technology and are manufactured according to the highest quality standards. No Oriflame cosmetic product has ever been tested on animals.

Over the years, Oriflame has launched thousands of products within Skin Care, Colour Cosmetics, Fragrances, Personal & Hair Care, Accessories and Wellness. The eternal favourite Tender Care Protecting Balm, as well as other best-sellers such as Wonder Lash Mascara or Diamond Cellular Cream, all convey the Swedish aspects of the Oriflame brand, symbolised by the key attributes of natural, progressive and ethical. This is the firm foundation of the brand and also the key to continued success.

The Oriflame catalogue is how the brands and products come to life for our consultants and consumers. The catalogues are literally shops without walls, offering each customer a unique shopping experience at a preferred time and place. Each edition has its own theme and includes a display of selected Oriflame products as well as new offers and seasonal promotions, altogether presenting around 500 products. A new Oriflame catalogue is distributed every three to four weeks and each edition is published in four regional versions in 40 different languages. Great efforts are made to differentiate the catalogues to make sure that each time they offer new and exciting shopping experiences.

A wide range portfolio

Oriflame's product offer is a result of more than 40 years of skin care and cosmetics expertise – combining the wisdom of nature with the best of science. The Company provides a wide assortment of distinct brands, at affordable prices. The products are made from high purity ingredients according to strict manufacturing and high ethical standards as well as stringent environmental policies.

The portfolio covers a wide range of cosmetic products; skin care solutions for every need, exclusive and qualitative fragrances, a wide and sophisticated range of colour cosmetics, extensive hair and body care, innovative wellness products and various fashion accessories.

During the year Oriflame launched a new concept, Dare to Be, targeting a younger audience with fun new products, inspired by a youthful lifestyle and the latest beauty trends. The concept, with a special targeted communication plan, is presented in a separate section and supported by online channels. For the launch of Dare to Be, four inspirational young women were chosen to embark on an adventure of a lifetime and a path of "love, self-discovery and achievement". Their experiences are shown in online video episodes and catalogues include a Dare to Be section in which the girls bring the latest looks to life.

Another major event was the successful launch of the fragrance Glacier Ice, promoted by the Russian figure skating star Evgeni Plushenko, Midnight Pearl EDP endorsed by supermodel Natalia Vodianova, as well as the South American launch of new Wellness products promoted by local sports celebrities. Within the product categories Colour Cosmetics and Fragrance Oriflame collaborated with Ukrainian singer Annie Lorak, while Swedish illustrator Liselotte Watkins was chosen to illustrate a new accessory range. Moreover Oriflame launched children's accessories from Disney in the CIS and EMEA regions and Matell in Latin America.

40 years of beauty research

Oriflame has over 40 years of experience in producing beauty products, combining the best ingredients with the latest scientific achievements. The Company's accumulated knowledge and experience has been gathered into one dedicated Research & Development team that is based in two locations; Dublin, Ireland and Stockholm, Sweden.

In Dublin, the focus is on product development. Experts develop and clinically test high-performance formulations, while providing technical support in the areas of regulatory affairs, product safety and industrialisation to the manufacturing facilities. These projects deliver technology and innovative new products for the skin care, colour, fragrance and personal care categories. In Sweden, focus is on basic research on skin biology.

From idea to launch

The process from idea to launch takes several years, involving valuable time and resources through the stages of marketing, R&D, manufacturing and distribution. Thus, being at the forefront of trends and needs is essential to deliver a strong offer to the market on time. This is important for gaining new customers, and making old customers remain loyal to the brand.

Oriflame's customers come from various parts of the world; have different habits, income and needs. To create attractive offers for such a heterogenic customer base requires a wide product range, high launching pace and proactive reaction to new trends. It is a constant challenge to stay on top of competition and remain innovative when introducing each new launch. A strong team of brand managers representing all six product categories continuously monitors trends, needs and new launches to stay in the loop, to maintain competitive strength and to gain market shares. Ideas originate from various sources such as international fairs and exhibitions, global trend reports, research projects and focus groups.

SKIN CARE

The Skin Care category experienced a challenging year, with a shift in consumer demand towards lower and mid-priced brands. Tender Care is still Skin Care's top selling product, supported by new flavours launched during the year. The category accounted for 22 percent of total sales in 2010. This year's hand cream launches were particularly successful. Lower priced brands such as Essentials also experienced enormous sales growth, while upper mass brands faced a difficult climate. The middle mass segment exhibited the largest growth, mainly due to the successful performance of Optimals, which is among the top three brands. Men's Skin Care segment had healthy growth, boosted by large sales of the North For Men brand. The youth segment also grew strongly, thanks to the Pure Skin relaunch during the year.

PERSONAL AND HAIR CARE

The Personal and Hair Care category accounted for 20 percent of Oriflame's total sales in 2010. The year resulted in unprecedented success of Feminelle products – three out of the top four best sellers in the category were intimate care products. The success of Discover Bath & Shower brand continues and it is now one of the best brands of the category, along with Nature Bath & Shower. The Bath & Shower category also experienced a growth in the upper mass segment thanks to the successful relaunch of Swedish Spa. Last year's Hair X launch strengthened Oriflame's credibility in the important hair care segment and the brand is now a solid performer. The 2010 relaunch of Foot Care under the new brand name Feet Up further boosted sales of the brand continuing to make it one of the strongest performers in its category.

WELLNESS

The Wellness category continued to grow in 2010 and constituted 3 percent of sales during the year. Two Wellness core products are among the top ten best selling products for Oriflame globally – Wellness Pack Woman and Natural Balance Shake Strawberry. In 2010, two new products were launched – Natural Balance Shake Single Servings and Natural Balance Shake Chocolate. The key focus going forward is to develop tools to help consultants sell Wellness, and also to launch several new attractive products.

FRAGRANCES

The Fragrance category generated 21 percent of total sales, has recorded another year of strong sales growth and remains the fastest growing category within Oriflame. Both male and female segments have registered strong growth, thanks to core brands' strong performance combined with successful introduction of new brands. The celebrity endorsement strategy once again showed a huge impact on sales with examples of local stars such as Russian Evgeni Plushenko for Glacier Ice EDT or global top model Natalia Vodianova for Midnight Pearl EDP. All price segments were dynamic with key launches in the low mass segment, such as the Sun-Moon-Eclipse trilogy, in the middle mass segment with Volume male EDT endorsed by DJ Paul Van Dyk, and in the upper mass segment with Precious Moments EDP for female and Giordani Man Dolce Vita EDT for the male audience.

ACCESSORIES

The Accessories category, accounting for 10 percent of sales 2010, continued its strong growth by offering a large assortment of products focusing on cosmetic items such as make-up brushes and manicure sets, fashion collections including handbags and jewellery as well as seasonal items including gifts for men and kids. Accessories further enhanced its position through a number of very successful regional collaborations with strong brands such as Puma and Disney, global cooperation with illustrator Liselotte Watkins and celebrity endorsements with, for example singer Ani Lorak. Focus on trends was increased by offering additional cross category collections.

COLOUR

In 2010, Colour Cosmetics grew more and experienced a double-digit growth during the second half of the year. The category represented 24 percent of sales during the year. It was particularly driven by Triple Core Lipstick with a break-through technology exclusive to Oriflame, attracting customers in all regions, as well as the launch of Very Me, targeted at a young audience, and Pure Colour, an entry-level range of products. Oriflame has focused specifically on repositioning and distinguishing the three brands within Colour Cosmetics to target specific consumers and attract new customers in the "impulse purchase" category.

DARE TO BE
– AN INSPIRING LAUNCH FOR YOUNG PEOPLE

The new concept Dare to Be targets Oriflame's younger audience through fun new products inspired by a youthful lifestyle and the latest beauty trends. The Dare to Be concept was developed in close dialogue with customers and consultants and launched through a special website and social networking sites such as Facebook and YouTube.

The marketing story features four inspirational young women on a path of love, self-discovery and achievement. Their experiences were shown in video episodes, where a global audience of young women joined their journey. The girls also star in the separate Dare to Be catalogue section – created especially to support the new youth philosophy.

Hundreds of sales consultants from the target group were involved in the development of products and specific marketing strategies prior to the launch, resulting in word of mouth through online communities and more than 50,000 orders per day since the launch. The Polish singer Eva Farna also featured in the launch.

The Dare to Be offer includes the Very Me make-up range, Babes fragrances inspired by Japanese style, and the Pure Skin range. Dare to Be was rolled out to all Oriflame markets worldwide.

CREATING A CATALOGUE
– A LONG JOURNEY

Creating a catalogue is about much more than filling blank pages with glossy product offers. The outline of a new catalogue begins more than one year prior to publication. The regional planning teams create a catalogue plan that includes ideas for the themes, what products will be shown in each catalogue, what page they will appear on and what the offers will be. The process involves a lot of analysis of current and historic results together with market trends, but also creativity in developing new exciting ideas and promotions.

The regional plans are communicated and discussed with local markets to optimise the combination of product and price in every catalogue. The completed plan is then formally briefed to the region's catalogue production team. There are constant updates and changes along the way in response to consumer needs and local market conditions, so it is crucial for both planning and catalogue production teams to be flexible and responsive.

About six months prior to launch, the production process begins. The regional catalogue production teams finish about 75 percent of the pages in the catalogue. These pages are filled with existing products and brands that are put in a context, all according to the brief from the planning team, covering theme as well as seasonal offers and discounts. The rest of the catalogue, about 20–25 percent is dedicated to product launches. These layouts follow a separate process that starts much earlier and is closely linked to the new product development process. The regional catalogue production team works on the catalogue for four months. During the process, they meet with the regional planning team every third week to review layouts and co-ordinate further work.

The last month is dedicated to retouching images, correcting colours, linking texts in the database and translating the catalogue, preparing the catalogue for printing and distribution.

STRIVING FOR OPERATIONAL
EXCELLENCE

STAYING TRUE
TO THE ORIGINAL BUSINESS CONCEPT

For more than 40 years, Oriflame has remained true to its original concept of natural Swedish cosmetics and an entrepreneurial culture. Today, Oriflame is one of the fastest growing international beauty companies, selling direct in more than 60 countries worldwide.

Continuously improving the offering

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

A sales force of approximately 3.5 million independent consultants has seized this opportunity and is successfully marketing Oriflame's broad portfolio of Swedish beauty products, together creating annual sales exceeding €1.5 billion. The Oriflame "Business Opportunity Concept" is built on four Strategic Cornerstones; Brands & Products, Network Marketing, World Class Service and People & Culture. By continuously improving the earning opportunity and consumer offering, Oriflame will attract an increasing number of consultants. By consistently evaluating and prioritising with the consultants in focus, management shall ensure that the allocation of resources is optimised.

Direct selling – a modern sales method

Direct selling may seem as a traditional sales method best suited for emerging markets without a developed retail market. However, lately new consumer behaviour has been putting traditional retail to the test, for instance the growing demand for home deliveries, personal shoppers and, in particular, online-shopping, which is now the most customised, routine and predictable way to shop. The retail industry is forced to find new methods, services and market channels in order to survive. Direct selling is meeting new market conditions in a rather progressive manner; adjusting the shopping experience to the consumer regarding timing, place, entertainment and personal approach.

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

A strong competitor

Being a cosmetics company selling direct means that Oriflame competes both with major cosmetics manufacturers for end customers as well as with other direct sellers for consultants. In Eastern Europe, direct sales as a channel is estimated to have more than 20 percent of the total cosmetics and toiletry market, compared with the global average of approximately 11 percent. The two largest cosmetics companies in Eastern Europe selling direct are by a wide margin Oriflame and Avon, but there are many other direct sellers competing for consultants, such as Russian Faberlic, American Mary Kay and Amway. Moreover Oriflame competes with global manufacturers such as Procter & Gamble, L'Oréal, Beiersdorf, Unilever and Kalina. In Latin America, direct selling is very popular and, in some countries, represents about 30 percent of the cosmetics and toiletry market. Oriflame is still a small player competing with Avon as well as local companies such as Natura, Belcorp, Yanbal and Jafra. Asia's beauty market is dominated by Unilever, Procter & Gamble and L'Oréal. However, direct sales have a significant share of the market in many Asian countries. Amway and Mary Kay are the largest direct sellers in China, while Amway and Oriflame have the largest market shares among direct sellers in Indonesia and India.

Well-positioned in a growing industry

The beauty and direct selling industry is well-positioned for future growth and Oriflame is one of the leaders in the industry, growing faster than most of its competitors. Globalisation has opened up extensive potential markets around the world where Oriflame's business model has a very good fit. The Company has a sales force of approximately 3.5 million independent consultants and over 8,000 employees in countries worldwide, managing everything from research, manufacturing and logistics to distribution of catalogues and marketing. The global platform keeps Oriflame close to fashion trends and customer preferences in different markets.

In total, the global market for cosmetics, personal and hair care increased by 5.2 percent in 2010 amounting to €288.8 billion. During the same period Oriflame's total sales increased by 8 percent in local currency. For the next five-year period, the global market for cosmetics and toiletries is forecasted to grow by an annual average of 2.7 percent at constant prices, reaching €330.0 billion in 2015, according to Euromonitor. Skin Care is expected to be the fastest growing product category with a 6.1 percent annual increase on average between 2010–2015 in the markets where Oriflame is present.

It gives me great pleasure and satisfaction to watch our consultants being recognised for their great work during our meetings. To me, that is what Oriflame's culture is all about – coming together to fulfil dreams.

Rupali Telang
Sales Manager, Thailand

UNIQUE CAREER OPPORTUNITIES

Oriflame's success is based on a strong and consistent Company culture, promoting an entrepreneurial spirit and a clear set of values. Everyone who joins Oriflame, whether they are employees or independent sales consultants, feel empowered by a stimulating, creative and dynamic work environment that makes them grow as people and professionals. Oriflame's greatest challenge in the years to come is to preserve core values and the genuine sense of entrepreneurship as the Company grows.

Various career opportunities

Oriflame presents a global working environment with many opportunities to work abroad in one of the many countries where the Company has a presence. Oriflame has 3.5 million independent sales consultants in more then 60 countries and over 8,000 employees located in offices all over the world working with various tasks such as sales, marketing, supply, financial analyses and legal issues. In addition to these functions Oriflame offers unique careers within research & development and catalogue creating.

The Research & Development functions in Dublin and Stockholm employ over a hundred scientists and technical experts, covering many scientific disciplines including formulation science, skin research, clinical testing, process development, packaging technology, microbiology, toxicology, environmental science, patent support, and global regulatory affairs.

A creative career at Oriflame means a unique possibility to be involved in the production of one of the world's largest beauty publications. The core team consist of art directors, layout artists, layout editors and copywriters. Production involves project management, image retouching and prepress, print production coordination, technical layout and text editing. The catalogue planners, creative directors, project managers, creative category managers, print production coordinators, photography coordinators, model bookers, stylists, image retouches and text functions support every step of the creation and production process.

Empowering people

Oriflame is a fast-growing Company that constantly adds new markets to its world. The Company must offer great motivation and potential for development in order to retain employees and attract an ever-increasing consultant sales force.

Sales consultants

Oriflame consultants get the chance to run their own company – setting their own targets, planning income and working hours and sometimes even changing their lives. The great majority who join Oriflame shop merely for themselves, their families and a few friends, while others go on to make a full career with Oriflame, building a business and recruiting other sales consultants to their network. Either way Oriflame has a well-developed system of tools and incentives to encourage the people who join the Company. An important part of this is the Success plan, according to which sales consultants are rewarded for their own sales, as well as those of any consultant within their network. Apart from the financial rewards, successful sales consultants and network builders are also rewarded with Senior Manager and Director titles depending on their achievements.

Training in beauty and business is provided through the Oriflame Academy, most of which is free of charge and online-based. Oriflame offers a variety of training programmes for consultants, ranging from presentation techniques to product knowledge and training sessions in make-up techniques. Oriflame hosts three major international conferences every year as an opportunity for leaders to share experiences and ideas with top management and colleagues from all over the world.

> ***"Oriflame presents a global working environment with great opportunities to work abroad.***

Employees

Oriflame's employees develop both in their day-to-day work and in Oriflame Academy, a unique training program. The internal three-step development programme for managers has been created to support and strengthen Oriflame's culture, increasing integration, strategic understanding as well as leadership and management skills.

The concept "Having the right people on the bus" focuses on establishing a structured framework, explicit ownership and a sharp agenda for Oriflame's talent management processes. The first part of the concept involves presentation and training in attracting, recruiting, developing and retaining key people. The purpose of the second part is to form cost-efficient and effective strategies, actions and responsibilities for "People and Culture" together with management.

In 2009, a new global introduction process was implemented as a way of welcoming new hires to Oriflame. The process begins before a new employee arrives and lasts up to a year or longer after the employee is in place. The introduction focuses on introducing the new hire to his/her role, explaining how it relates to Oriflame's overall functions, activities and vision. The process also involves setting performance targets, as well as enrolling the new hire in the Oriflame Way and Oriflame Academy training.

“I joined Oriflame 20 years ago and during all these years I have never felt bored. It’s an incredibly fulfilling job and I’ve always had the pleasure of working in fantastic teams with inspiring people.

Mariusz Zak
Customer service, Poland

A strong and consistent Company culture

The people behind Oriflame are the reason for the Company's success. But how does one run a company, which operates in more than 60 markets over the world, in over 40 languages and where values, religious beliefs and political convictions vary greatly from region to region? The key is the corporate culture. Oriflame's culture is based on entrepreneurship as well as respect for and belief in peoples' capability.

Oriflame wants to ensure that all employees understand the core values and operating principles of the Oriflame culture. The Oriflame Way is a one-day seminar presented by senior managers trained for this purpose. The seminar is given in English, Russian and Spanish to fully reach its target audience. To date, 1,380 employees have attended the Oriflame Way and the CEO and President Magnus Brännström has personally conducted many of these training sessions, as it is a highly prioritised matter in the Company.

> ***"With offices in more than 60 countries, each is a venue for diversity and common experience.***

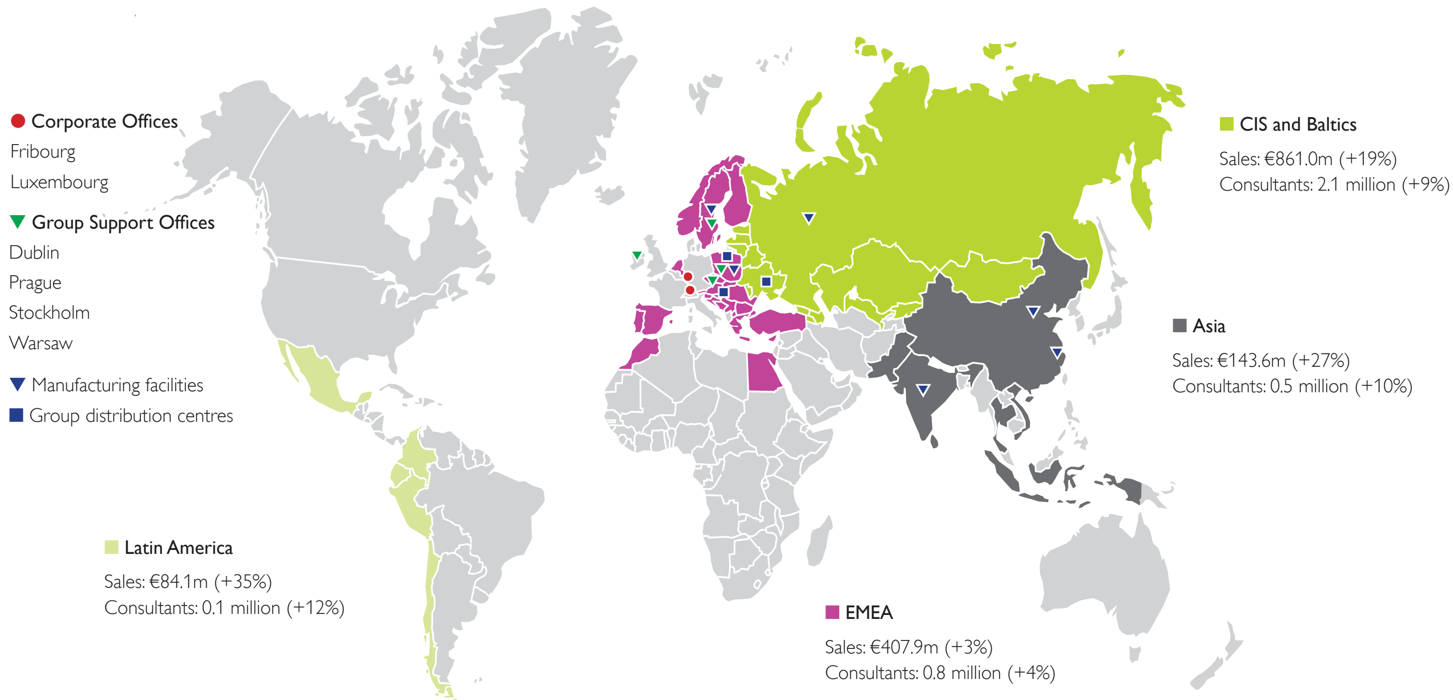
Diversity and equality as a source of strength

Oriflame aspires to reflect the globally diverse audience that it serves. In addition to hiring the best talent, Oriflame believes that diversity of gender, nationalities and cultures leads to the creation of better perspectives, ideas and products. With offices in more than 60 countries, each is a venue for diversity and common experience, Oriflame always strives for an even distribution of gender and ethnical background within all categories of employees. All employees should be evaluated based on the same basic principles; performance, experience and potential. When recruiting, both female and male candidates should be reviewed. Oriflame always strives to secure equal pay for equal work and performance benchmarked against external market data.

A salary mapping comparing wages has been conducted at the Stockholm office showing the Company is compliant with both law and policy for equal opportunities when it comes to differentiating based on gender. A mentoring program has been implemented for top women in the Company and a program aimed at women with leadership potential has been introduced as a topic at Oriflame Academy.

Working at Oriflame has been a unique experience. I'm passionate about my work and I enjoy my colleagues. They make me feel at home and help me reach my goals.

Nancy Arista Mortales
Mexico



SUPPLY CHAIN

Own manufacturing

Oriflame produces 60 percent of its cosmetic product volumes in its internal facilities. A new factory is under construction in Noginsk 45 km east of Moscow in Russia for production of body care and toiletries.

Warsaw, Poland
- Skin Care
- Body care/toiletries
- Colour Cosmetics (colour emulsions)

Ekerö, Sweden
- Toiletries
- Fragrance

Moscow, Russia
- Lipsticks
- Lipglosses

Noida, India
- Skin Care
- Body care/toiletries
- Colour Cosmetics

Kunshan and Beijing, China
- Skin Care
- Body care/toiletries
- Colour Cosmetics
- Wellness

External manufacturing

Oriflame buys 40 percent of the annual sales of cosmetics products from external suppliers, mostly products that require specific technology, such as some Colour Cosmetics (eye pencils), Skin Care (capsules), Wellness products, Personal & Hair Care (bar soaps) as well as some specific fragrance products.

The third party suppliers are mainly located in Europe. Every year, a few new suppliers are added and some are removed. In 2010 and 2011, there has been a specific focus on adding more suppliers in the CIS region in order to cut lead-time and reduce total landed cost.

Accessories products are purchased exclusively from third party suppliers, primarily in China.

Group distribution centres (GDCs)

The Group Distribution Centres (GDCs) are logistics hubs that include pick & pack, serving individual customers and end consumers in certain markets. Today Oriflame has such Group Distribution Centres in Warsaw, Poland, in Kiev, Ukraine and in Budapest, Hungary. Oriflame intends to establish more Group Distribution Centres to further improve the supply chain.

Catalogues

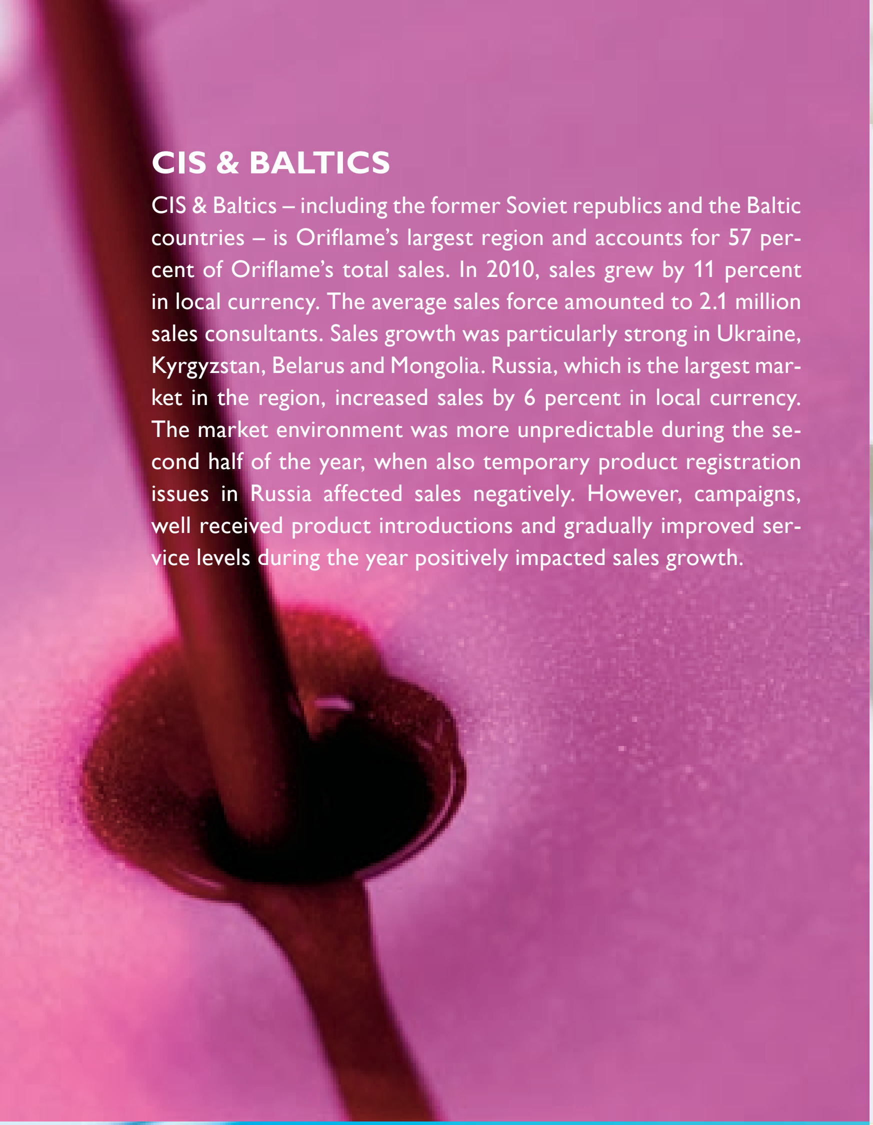
The catalogues come in four regional versions and 40 languages. The art work is done in Stockholm, Sweden, Bangkok, Thailand and Santiago, Chile. Most catalogues are printed in Kiev, Ukraine, Warsaw, Poland and Santiago, Chile.

CIS
- Russia (printed in Finland)
- All other CIS markets (printed in Ukraine)

EMEA
- Romania (printed in Romania)
- Egypt (printed in Egypt)
- Turkey (printed in Turkey)
- All other EMEA markets (printed in Poland)

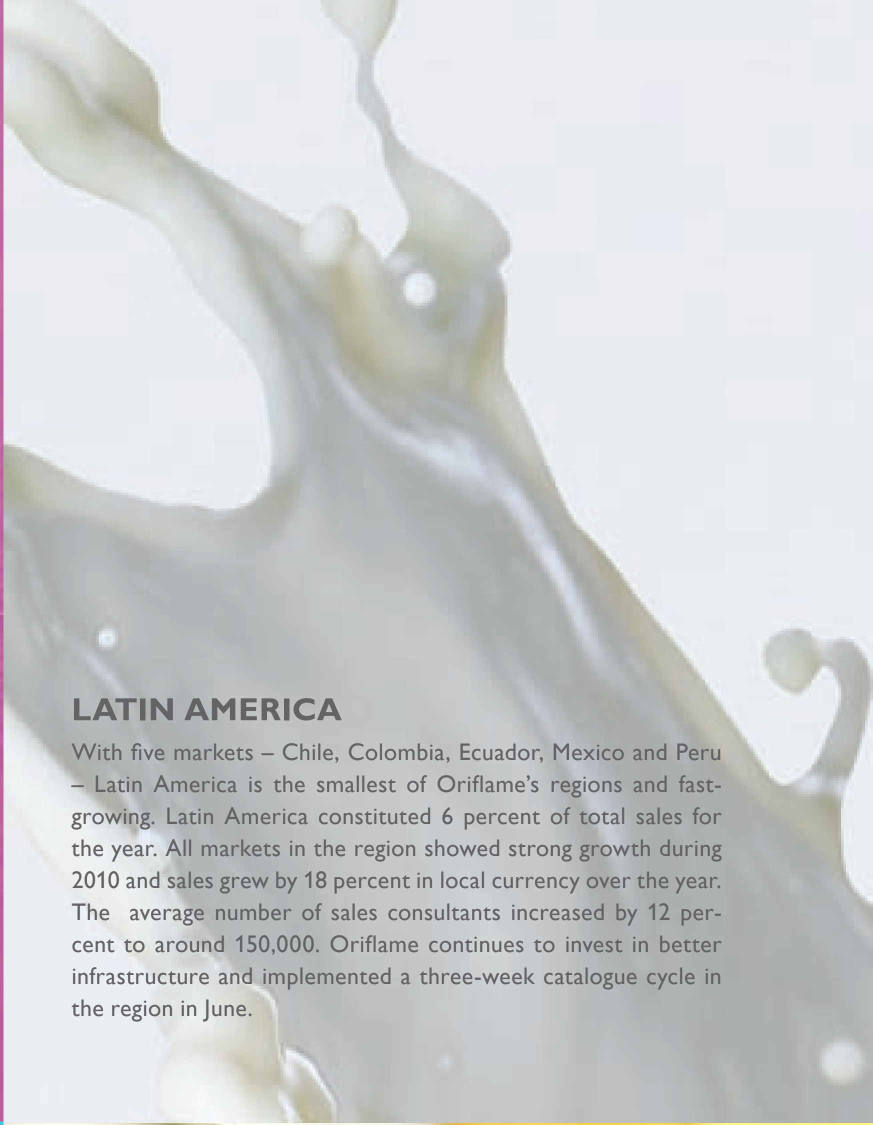
Latin America
- Latin America (produced and printed in Chile)

Asia
- Printed locally in all the different markets



CIS & BALTICS

CIS & Baltics – including the former Soviet republics and the Baltic countries – is Oriflame's largest region and accounts for 57 percent of Oriflame's total sales. In 2010, sales grew by 11 percent in local currency. The average sales force amounted to 2.1 million sales consultants. Sales growth was particularly strong in Ukraine, Kyrgyzstan, Belarus and Mongolia. Russia, which is the largest market in the region, increased sales by 6 percent in local currency. The market environment was more unpredictable during the second half of the year, when also temporary product registration issues in Russia affected sales negatively. However, campaigns, well received product introductions and gradually improved service levels during the year positively impacted sales growth.



LATIN AMERICA

With five markets – Chile, Colombia, Ecuador, Mexico and Peru – Latin America is the smallest of Oriflame's regions and fast-growing. Latin America constituted 6 percent of total sales for the year. All markets in the region showed strong growth during 2010 and sales grew by 18 percent in local currency over the year. The average number of sales consultants increased by 12 percent to around 150,000. Oriflame continues to invest in better infrastructure and implemented a three-week catalogue cycle in the region in June.

ASIA

The Asia region represents 10 percent of Oriflame's sales, with operations in eight countries. In 2010, sales grew by 15 percent in local currency while the average sales force increased by 10 percent to more than 450,000 sales consultants. Sales momentum was particularly strong in India, Indonesia and China. The Iranian operations closed down in August. Like-for-like, excluding Iran, sales growth were 16 percent in local currency.

EMEA

The EMEA region – Europe, Middle East and Africa – accounts for 27 percent of Oriflame's total sales. In 2010, sales in local currency were unchanged compared to last year, while the average number of sales consultants increased by 4 percent to approximately 800,000. The best performing markets during the year were Turkey, Hungary and Morocco. The macro conditions in the central and southern part of Europe were difficult during 2010.

RESPONSIBLE OPERATIONS

– A JOURNEY TOWARDS SUSTAINABILITY

Responsible business practices are the key to Oriflame's success and future growth. Whether in the day-to-day business activities or the impact of the products, Oriflame is committed to achieving ever higher standards of quality, social and environmental performance. From employees to consultants, paper sourcing to product development, manufacturing to events, Oriflame believes its global reach and marketplace success comes with a duty of care to the people involved and the natural resources it uses.

Oriflame has always benefited from the ethics of its founding fathers. In 2010, the Board of Directors decided to take a first step in deepening its focus on sustainability by instigating a new corporate strategy for environmental responsibility. The sustainability plan contains a series of commitments across four key areas: sustainable sourcing, climate change, water and waste. It also reaffirms the Company's sense of social mission, from the wellbeing of Oriflame employees and consultants to community investment partnerships and philanthropic activities. The overall purpose is to live up to the expectations of customers, sales consultants, employees, shareholders, and society in general, who all aspire to be part of a responsible business.

Customers and Sales Consultants – the highest standard in the right place at the right time

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

More than 700 million products are sourced annually from more than 50 suppliers and shipped to more than 60 markets worldwide. The Global Supply Strategy focuses on making the process easy, reliable and user-friendly for the consultants and customers by better aligning supply and sales in the Group. The strategy involves cutting lead times and increasing flexibility in the end-to-end supply chain by consolidating the inventory closer to the main markets and by eliminating intermediate warehouses in the various markets, as well as building capacity to support growth, increasing in-house manufacturing and sourcing regionally where appropriate. The target is to have a base of flexible, efficient and quality-orientated suppliers who ensure product availability, claims and quality, delivery times, delivery reliability and accuracy in all of Oriflame's markets.

The Oriflame inventory levels have been relatively high in recent years due to long lead times and the difficulty of making accurate forecasts. Lower inventory would have resulted in late deliveries, poor service levels, and lost sales. To resolve this issue, the supply and distribution planning, as well as forecasting teams, have been strengthened and a new it-system (JDA) has been implemented. As of September 2009, plans of resource distribution (DRPs) are updated daily instead of monthly and since the beginning of 2011, 90 percent of the planned production volumes will be adjusted accordingly on a weekly basis.

Environmental sustainability – Understanding Oriflame's footprint and reducing its impact

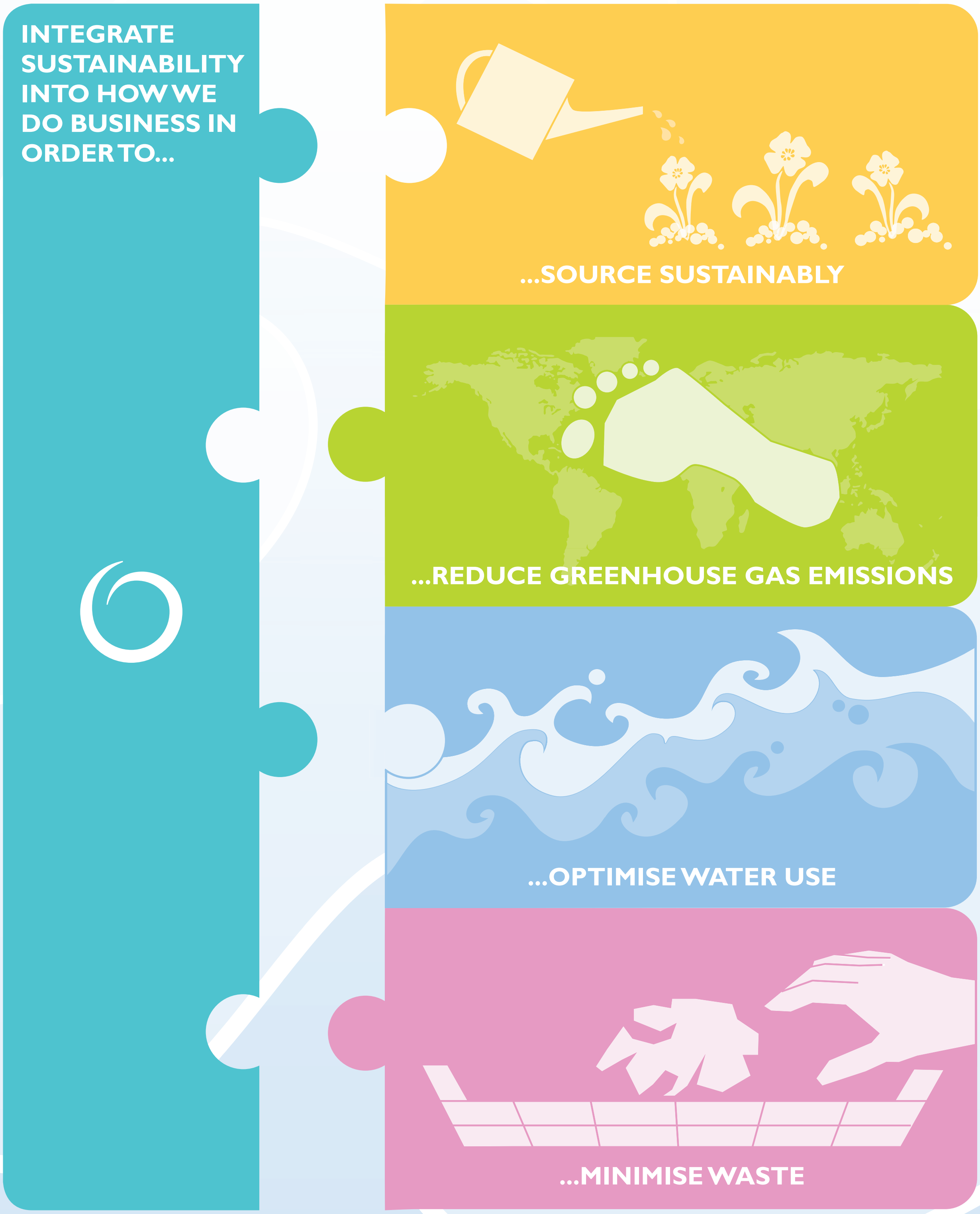
In 2009, Oriflame commissioned an environmental assessment of the Company's operations. The analysis spanned all phases of the life cycle, from raw material extraction to production and disposal, focusing mainly on the carbon footprint. The study identified Oriflame's most significant environmental impacts and serves as the foundation for the new Oriflame environmental sustainability plan.

Oriflame's new sustainability strategy aims to reduce environmental impacts through a number of key priorities across four main areas: sourcing of sustainable natural resources such as paper, palm oil and other ingredients; reduction of CO^2 and other greenhouse gas emissions; reducing water consumption and emissions to water and; minimising waste throughout the supply chain.

Oriflame is now rolling out a series of improvements designed to embed sustainability principles into the DNA of the business.

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

During 2009, a Senior Advisor on Environmental Sustainability, reporting directly to CEO, was recruited to design and implement the Company's sustainability strategy. Moving forward, the responsibility of fulfilling Oriflame's ambitious commitments will sit firmly within every part of the organisation. Oriflame is also exploring exciting new ways to engage employees as well as 3.5 million consultants globally on these crucial issues.


INTEGRATE SUSTAINABILITY INTO HOW WE DO BUSINESS IN ORDER TO...
...SOURCE SUSTAINABLY
...REDUCE GREENHOUSE GAS EMISSIONS
...OPTIMISE WATER USE
...MINIMISE WASTE

ORIFLAME'S ENVIRONMENTAL COMMITMENTS

As part of its renewed sustainability strategy, Oriflame has unveiled a series of commitments across its key impact areas. During 2011, these will be rolled out globally across the business. Oriflame will report regularly on its progress in meeting these commitments and will add new targets and commitments in the months and years ahead.

THE ISSUE

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

COMMITMENTS

Palm oil: We will continue to pursue our goal of purchasing all our palm oil from certified sustainable sources. During 2010, this goal was approached through the purchase of Green Palm credits.

Paper: By 2015, 75 percent of the wood fibre used in our publications and our paper and board packaging will come from credible certified sources and/or be of recycled origin. By 2020, our goal is 100 percent.

Animal Welfare: We will continue to pursue our policy of never using ingredients in our cosmetic formulations derived from dead animals or which cause harm or suffering to animals.

Packaging: By the end of 2011, all newly specified cosmetic display cartons and leaflets for global products will be FSC certified.

THE ISSUE

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

COMMITMENTS

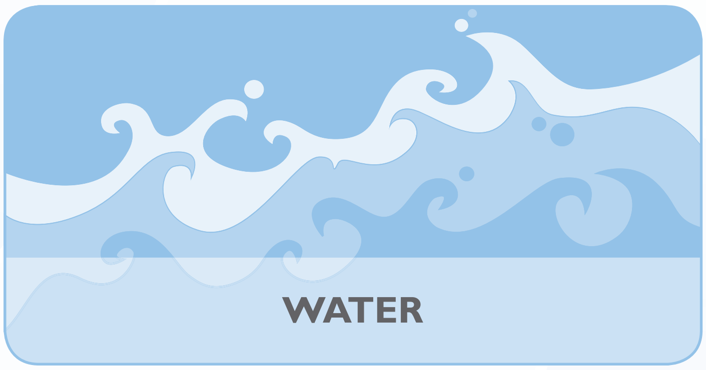
Greenhouse Gas Emissions: We will reduce greenhouse gas emissions from our factories by 20 percent by 2015 (per unit produced based on the 2010 baseline).

Greenhouse Gas Reduction Targets: During 2011, we will present a comprehensive set of greenhouse gas reduction targets that will have a wider scope than our current manufacturing targets and consider the overall Oriflame footprint.

Energy Use: We will reduce energy use at our factories by 15 percent by 2015 (per unit produced based on the 2010 baseline).

Travel: By the end of 2011 Oriflame will roll out an online communication tool to all our office-based employees and provide them with relevant training in order to reduce travel.

LEED certification: We will reduce future greenhouse gas emissions at our new facilities by actively working to pursue LEED green building scheme certification for all our new production facilities.



THE ISSUE

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

COMMITMENTS

Responsible Water Use: We will reduce water use at our factories by 10 percent by 2015 (per unit produced based on a 2010 baseline).

Biodegradability: In order to reduce the environmental impact at the end of product life, we will pursue our existing policy with only use readily biodegradable primary surfactants and conditioning agents in our cosmetic formulations.

Education: To reduce the environmental impact during the use phase and at the end of product life, we will start to communicate with our more than 3 million consultants worldwide on environmental issues relating to water consumption and pollution.

LEED certification: We will reduce water use and emissions to water at our new facilities by actively working to pursue LEED green building scheme certification of all our new production facilities.

THE ISSUE

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

COMMITMENTS

Manufacturing waste: We will reduce waste at our factories by 10 percent by 2015 (per unit produced based on the 2010 baseline).

Recycled Plastic: We will increase the use of post-consumer recycled (PCR) plastic in our cosmetic packaging materials. In 2011, all new coloured PET bottles will specify PCR material and we will start to implement the inclusion of PCR material in tubes and jars.

Education: In order to encourage end-of-life recycling of our packaging materials and catalogues, we will start to communicate with our more than 3 million consultants worldwide on environmental issues relating to waste.

Facilitate recycling: We will increase the availability of recycling facilities at our service centres worldwide as part of the roll-out of the upgrade of our service centres commencing in 2011.

LEED certification: We will reduce construction waste at our new facilities by actively working to pursue LEED green building scheme certification of all our new production facilities.

Spotlight on current issues

Product Development

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

In addition to continuously improving the environmental profile of existing product ranges, Oriflame will launch a new range of environmental, natural and ethically sourced beauty products during the coming year.

Sustainable Sourcing

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

Paper and wood-based products are Oriflame's number one raw material, used in packaging materials as well as in publications such as catalogues. In 2010, Oriflame started working in collaboration with the Rainforest Alliance, a global conservation organisation, to develop a responsible global paper sourcing strategy and set ambitious sustainability targets. The ultimate aim is to ensure that all Oriflame paper and board packaging and publications are sourced from credibly certified sources and/or from recycled origins.

Oriflame uses palm oil as an ingredient in numerous cosmetic formulations. Palm oil contributes to the economic development of the producing countries. Nonetheless there are environmental pressures on its rapid expansion to eco-sensitive areas. It is vital that production and use of palm oil must be conducted in a sustainable manner based on economic, social and environmental viability. In 2010, Oriflame joined the Round Table on Sustainable Palm Oil (RSPO) and made a commitment to strive towards buying all of the palm oil consumed in the Company's products from certified sustainable sources. On the way to achieve this goal, for 2010, Oriflame helped to fund sustainable palm oil production through the purchase of Green Palm certificates covering 100 percent of its total palm oil consumption.

Animal Welfare

Oriflame implements strong animal welfare policies. Oriflame cosmetic products have never been tested on animals, and no Oriflame cosmetic products contain ingredients that cause suffering to animals.

Factories and Suppliers

Oriflame manufactures about 60 percent of its cosmetics product volumes in-house. Five Oriflame-owned factories produce skin care creams and liquids, foundations, mascaras, lipsticks and lip-glosses, personal care and hair care products as well as fragrances. A sixth facility is manufacturing food supplements for the Chinese market. Increasing the sustainability profile of Oriflame's own facilities and operations is therefore a key priority. Audits are being conducted at the current manufacturing sites for improved profiles in regard to energy use, CO^2 emissions, waste control and water consumption. Each of these areas has ambitious targets to be met by 2015. During 2010 many actions have been carried out in each of these areas. For example, we have reduced energy use and water use by approximately one fifth and the total effluent produced by approximately a quarter per unit produced during the past year. As for the new production facility under construction, Oriflame is actively working to pursue LEED Green Building Certification, and is currently developing a strategy for greening offices and conferences to engage employees and consultants in the Company's sustainability work.

External suppliers in Europe (including Russia), the United States and Asia produce the remaining part of the product range, including cosmetics, accessories and food supplements. Local sourcing of accessories for sales actions and recruitment campaigns is particularly challenging as the products are selected on short notice and the suppliers are constantly changing, limiting control of content and working conditions. As a consequence, the sourcing of the products for sales actions and recruitment campaigns will be increasingly channelled through the central purchasing functions. Moreover, supplementary audits are being conducted at accessories suppliers in China, to ensure that they comply with ethical policies.

Logistics

Oriflame is currently implementing a supply and sourcing strategy for logistic operations in addition to the existing ISO Cosmetic Good Manufacturing Practice Standard (GMP), integrated in Oriflame's Code of Practice. The general strategy is to move sourcing of products and printing of catalogues closer to the current and future Group Distribution Centre facilities and major markets to improve transportation routines to reduce lead times, transportation cost, CO^2 emissions and energy consumption.

Oriflame favours sea shipping, truck freight and railway cargo and attempts to limit air shipments to the extent possible. The packaging and loading routines for ship containers are being reviewed to improve space usage, thereby reducing energy consumption and transportation costs. As for truck freight, demands have increased on the choice of vehicles, aiming at the Euro5 standard for all road transport.

Oriflame's strategy is to consolidate the warehouses, i.e. inventory group distribution centres (GDCs) to eliminate unnecessary cargo, optimise transportation cost and minimise inventory levels. Consultants are served directly from the GDCs whenever possible. Previously, each market has had stock-holding in local market warehouses.

Community involvement – empowering future generations

Oriflame takes a strong stance on important social and ethical issues. The ten principles of the United Nations Global Compact, applying to the areas of human rights, labour standards, the environment and anti-corruption, have been integrated into the Code of Conduct to ensure that they permeate all aspects of the business.

Oriflame's view of corporate social responsibility includes applying a responsible business model, which empowers people and provides them with tools to enrich their lives. Becoming a sales consultant for Oriflame provides financial opportunities from the first day, without risk. Apart from providing employment and business opportunities, Oriflame contributes to local communities by supporting good causes on a local, regional and global level. As a responsible Company, it is what society expects from Oriflame and it also reflects its long-term commitment to pursue ethical business principles throughout its operations and to fulfil people's dreams.

Oriflame philanthropy

For many years Oriflame has tried to support the most responsible non-governmental organisations and charities around the world. This includes World Childhood Foundation, founded by HM Queen Silvia and co-founded by Oriflame and the Af Jochnick Foundation, a relationship which continues to this day. In order to reach its full potential, all of Oriflame's philanthropic work is now being co-ordinated centrally.

The mission of the Oriflame charity work is to help children and young women through a wide range of educational initiatives, providing opportunities for them to change their lives for the better and be empowered to turn their dreams into reality. Efforts are focused on various activities beyond traditional classroom-based education; from building social skills and mentoring to supporting orphans and foster families. Examples of existing projects are Oriflame's Contemporary Girls' Initiative in Turkey to help young girls complete their secondary education, and social rehabilitation for teenagers in Latvia through the Livslust Foundation.

Co-ordinating all the philanthropic activities from one platform is a way to improve communications and collaboration between the different projects and to increase the overall level of community investments across different markets. All employees and consultants are encouraged to engage in local charity projects and each employee is offered one day per year of paid leave to do volunteer work for good causes in their markets.

Oriflame will support projects in different markets of operation through the sale of regionally selected cosmetic products and specially-developed, global accessories. This will be supplemented by local fundraising events organised by Oriflame employees and sales consultants.

TOWARDS MORE SUSTAINABLE PAPER PURCHASING PRACTICES

Oriflame is a large consumer of paper products and recognises that we have a role in preventing deforestation and forest degradation, and that we, through our purchasing practices, can help promote sustainable forest management. Our ambition is ultimately to ensure that all our paper and board packaging come from either well-managed forests or recycled material. Oriflame shall work with suppliers to progressively increase the proportion of credibly certified and/or recycled wood sources as material becomes available. In 2010 Oriflame started working in collaboration with the Rainforest Alliance, a global conservation organisation, to develop a responsible global paper sourcing strategy and set ambitious sustainability targets.

The Rainforest Alliance works with people whose livelihoods depend on the land, helping them transform the way they grow food, harvest wood and host travellers. In 1989, the Rainforest Alliance pioneered the concept of responsible forestry certification and has since certified to Forest Stewardship Council standards more than 64 million hectares around the world. Working with large multinational corporations, small, community-based co-operatives, businesses and consumers worldwide, the Rainforest Alliance is helping to bring responsibly produced goods and services to a global marketplace where the demand for sustainability is growing steadily.

For more information, visit
www.rainforest-alliance.org

Rainforest Alliance

A FIRST STEP IN GREEN CERTIFYING ORIFLAME FACILITIES

Oriflame is currently attempting to LEED-certify the Noginsk Facility which is being constructed outside Moscow. LEED is an internationally recognised green building certification system, providing third-party verification that a building or community was designed and built using strategies aimed at improving performance across all the metrics that matter most: energy savings, water efficiency, CO^2 emissions reduction, improved indoor environmental quality, and stewardship of resources and sensitivity to their impacts. Developed by the U.S. Green Building Council (USGBC), LEED provides building owners and operators a concise framework for identifying and implementing practical and measurable green building design, construction, operations and maintenance solutions.

COMMUNITY INVOLVEMENT THAT MAKES A DIFFERENCE

Through its philanthropic efforts, Oriflame aims to help children and young women through a wide range of educational initiatives, providing opportunities for them to change their lives for the better and be empowered to turn their dreams into reality. Below you can read about a few of the projects Oriflame is currently supporting.

CONTEMPORARY GIRLS OF ORIFLAME, TURKEY

Oriflame helps girls from poor families in Turkey to complete their secondary education, providing them with opportunities that they would otherwise be denied. Under Oriflame's Contemporary Girls initiative, 500 young girls from rural areas in south-east Turkey, are being supported throughout the entire course of their secondary school studies. The project has been supported by Oriflame Turkey for seven years in collaboration with the local NGO partner Support for Modern Life Association (ÇYDD), and runs to the end of 2012.

BY PLAYING I LEARN AND DEFEND MY RIGHTS, PERU

In the Carabayllo district in Lima, Peru, Oriflame supports the project *By playing I learn and defend my rights*. The project teaches children about their civil rights, boosting their self-esteem as a defence mechanism. Oriflame supports the building of classrooms and training of personnel in co-operation with a local NGO partner, SOS Children Villages, Peru.

DZĪVESPRIEKS "LIVSLUST", LATVIA

Oriflame contributes to The Livslust Foundation, a charitable organisation that provides essential vocational education and social rehabilitation to disadvantaged teenagers. In Latvia, its sister organisation Dzīvesprieks, helps youngsters to complete their education and learn the necessary skills that will enable them to lead independent lives. Oriflame Latvia has supported different education and development projects in co-operation with a local NGO partner, since Livslust started in Latvia in 1997.

ORIFLAME SPONSORS BETHEL, ENDLESS LOVE, CHINA

Bethel is a non-profit organisation that provides foster care, education and professional training for Chines orphans who are visually impaired. The Project's training centre, named The Love is Blind Centre, is located on a 17-acre property, near a small village outside Beijing. The organisation was founded in 2002 by a French couple, Guillaume and Delphine Gauvain. During 2010 the Af Jochnick Foundation granted funds for the completion of one house at the Love is Blind Centre. Oriflame employees support the project by taking part in volunteer activities.

Photo: Katarina Illievska

Photo: Benno Neeleman

Photo: Benno Neeleman

Photo: Michaela Morosoni

FINANCIALS

STATEMENT FROM THE CHAIRMAN

A bright future ahead

When we founded Oriflame in the late 1960s, it was with the idea of creating a sustainable business model, and in fact it still remains strong decades later. Direct sales have held their own against retailers – in old and new economies. Families, and women in particular, around the world are given an opportunity to improve their financial situation, reach new goals and in many cases rise from poverty. Young people are attaching increasing value to being able to manage their own time. Personal networks and confidence in those you do business remain important – especially in markets where Oriflame is active. The growth of the Internet and social media is creating exciting new opportunities for Oriflame. Many positive things have already happened, and development has just begun. But even though the channels are new, our concept is the same today as it was when we got started – beauty products of high quality sold in a personal manner.

> ***"In my view, our corporate culture, characterised by entrepreneurial spirit, is the single most important reason for Oriflame's long-term success.***

In a fast-changing and frequently turbulent world, it is becoming increasingly important to define your position, your message and your values. People want strong, distinctive brands, and our long-term competitive strength is based on how well we succeed in communicating what Oriflame stands for: natural, progressive and ethical. Sustainability issues, corporate responsibility and charity have always been a key part of Oriflame's culture, which is why I am pleased that we were able to take this work a step further during the year by creating a suitably robust structure for professional CSR work. Long-term sustainability goals and concrete measures will accelerate the pace and ensure that our CSR work is taking us in the right direction. During the year we also intensified our charitable commitments through many new projects and by creating a central organization to manage these efforts even more professionally. The fact that we were able, despite a fairly tough year, to focus on our long-term values and structural issues alongside critical day-to-day challenges is a sign of our ability to take action and true commitment. It leaves me proud and impressed.

In my view, our corporate culture, which stresses an entrepreneurial spirit, is the single most important reason for Oriflame's long-term success. It is vital that we continue to find driven people and good leaders at every level in and around the Company. People who also share and live by our values. Ensuring that new talent is added to the organisation, utilising our competencies and offering exciting career opportunities are a constant challenge.

We have left a year of challenges behind and now face a new one with continued uncertainty in our operating environment. Yet I feel no less convinced of the bright future that Oriflame has ahead. We have a well-established, respected position in the industry, a strong product offering at attractive prices and a business model that has been proven strong in many countries, cultures and economies.

On behalf of the Board of Directors, I would like to thank the company's management and all its employees for their professionalism and hard work.

Robert af Jochnick
Chairman

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

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

KEY FIGURES

Two-year record

€ million (unless otherwise stated)	2010	2009
Sales	1,513.6	1,316.6
Gross profit	1,002.5	874.8
Gross margin, %	66.2	66.4
EBITDA	184.4	167.0
Adjusted operating profit	** 168.1	* 146.8
Adjusted operating margin, %	** 11.1	* 11.1
Adjusted profit before tax	** 146.0	* 118.6
Adjusted net profit	** 128.3	* 101.7
Cash generated from operations	139.7	176.9
Cash flow from operating activities	90.3	131.7
Average operating capital	368.6	319.2
Return on operating capital, %	42.7	45.6
Average capital employed	465.3	407.0
Return on capital employed, %	34.4	35.9
Net interest-bearing debt	*** 200.5	160.0
Interest cover	5.6	6.1
Earnings per share, basic, €	2.07	1.77
Earnings per share, diluted, €	2.06	1.76
Average number of full-time equivalent employees	8,353	8,281

* Before restructing costs in the EMEA region of €1.3m.

** Before restructing costs in the EMEA region of €0.7m and effect on operating profit from Iran impairment of €10.1m.

*** Net interest-bearing debt includes US loan fair value. The net interest-bearing debt would be €195.4m when US loan is measured at €/USD exchange rate of €1.36, reflecting the value of the corresponding currency swap.

Definitions

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

Cash generated from operations
Operating cash flow before interest and bank charges paid and before income taxes paid.

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

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 minus cash and cash equivalents.

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

Quarterly figures

	2009				2010			
Sales, €million	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
CIS & Baltics	196.9	168.5	145.9	213.8	205.1	208.0	187.3	260.6
EMEA	97.1	98.3	85.5	114.6	98.3	100.5	90.4	118.7
Latin America	14.6	16.2	15.3	16.5	17.4	22.4	22.0	22.4
Asia	26.3	27.6	26.2	32.8	36.3	39.2	33.7	34.5
Manufacturing	3.2	1.2	1.3	1.4	1.6	1.1	0.5	1.1
Other	3.2	3.7	3.1	3.4	3.2	3.8	2.7	2.8
Oriflame	**341.3**	**315.5**	**277.3**	**382.5**	**361.9**	**375.0**	**336.6**	**440.1**

Adjusted operating profit, €million	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
CIS & Baltics	33.6	23.7	11.4	38.1	31.3	30.3	23.6	49.8
EMEA	13.3	14.7	11.3	19.7	10.7	13.9	9.7	19.8
Latin America	(0.6)	1.1	0.8	–	0.4	0.8	0.9	0.9
Asia	1.2	1.7	2.3	4.0	1.2	2.8	2.2	3.8
Manufacturing	0.5	(1.3)	(1.4)	(1.0)	1.3	4.1	4.9	3.9
Other	(10.2)	(7.6)	(2.8)	(5.8)	(2.9)	(14.0)	(14.2)	(17.2)
Oriflame	**37.8**	**32.3**	**21.6**	**55.0**	**42.2**	**37.9**	**27.1**	**61.0**

Average sales force, '000	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
CIS & Baltics	1,831	2,046	1,783	1,973	2,081	2,135	2,016	2,176
EMEA	751	808	717	769	813	818	777	796
Latin America	124	134	135	137	137	153	153	151
Asia	418	429	386	406	466	470	442	431
Oriflame	**3,124**	**3,417**	**3,021**	**3,285**	**3,497**	**3,576**	**3,388**	**3,554**

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

THE ORIFLAME SHARE

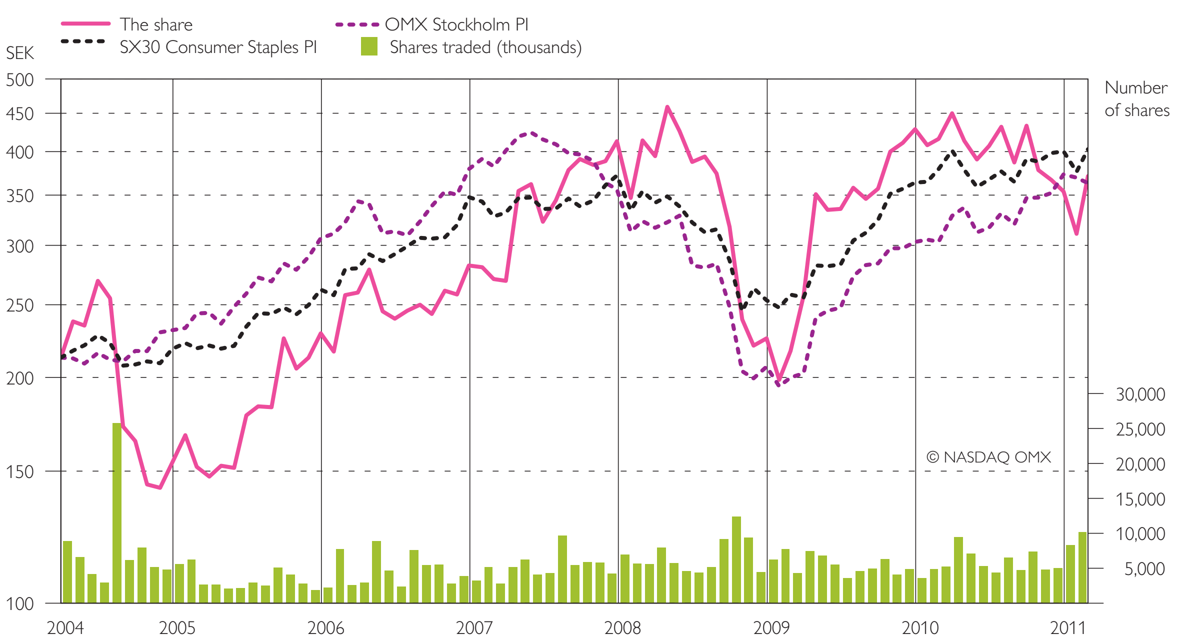
Oriflame Cosmetics was introduced on the NASDAQ OMX Nordic Exchange on 24 March 2004 through an initial public offering of Swedish Depositary Receipts (SDRs). On 31 December 2010, the number of shareholders and SDR holders was 8,483. Each SDR represents one share. The last price paid on 30 December 2010 was SEK 354.00, giving Oriflame a total market capitalisation of SEK 20.2 billion. During 2010 an average of 270,819 shares were traded per day on the NASDAQ OMX Nordic Exchange.

Oriflame Cosmetics top 10 shareholders as at 31 December 2010

Oriflame Cosmetics top 10 shareholders	Shares	Capital and votes, %
Lazard Asset Management LLC *	6,904,079	12.1
Stichting af Jochnick Foundation	6,016,001	10.6
JP Morgan Asset Management Ltd. **	5,059,081	8.9
Robert & Alexander af Jochnick and family	4,392,732	7.7
Jonas af Jochnick and family	4,130,400	7.2
Swedbank Robur Fonder AB ***	2,541,621	4.5
Baillie Gifford & Co **	2,215,561	3.9
Jupiter Asset Management Ltd. **	2,109,956	3.7
Templeton Investment Counsel LLC **	1,367,353	2.4
SEB Investment Mgt / Trygg Liv ***	818,721	1.4
Other	21,424,722	37.6
Total	**56,980,227**	**100.0**

Sources:
* Disclosure notice received by Oriflame from the company on 10 February 2011
** Capital Precision
*** Euroclear

Share price



Ownership structure as at 31 December 2010

Shareholding	Number of shareholders	%	Number of shares	%
1– 1,000	7,559	89.1	1,321,107	2
1,001– 10,000	623	7.3	2,000,517	4
10,001– 50,000	168	2.0	4,071,613	7
50,001– 500,000	115	1.4	18,531,443	32
500,001–1,000,000	9	0.1	7,185,896	13
1,000,001– upwards	9	0.1	23,869,651	42
Total	**8,483**	**100.0**	**56,980,227**	**100**

Source: Euroclear and share register

Dividend policy and dividend proposal

The Board of Directors has adopted a dividend policy to the effect that, absent changes in the Company's operations or capital structure, Oriflame intends to distribute, over the long term, at least 50 percent of the Company's annual profit after tax as dividends. For 2010, the Board of Directors proposes to the Annual General Meeting a distribution of €1.50 (1.25) per share. The last day of trading including right to dividend is 19 May 2011 and payment of cash dividend will occur through Euroclear on or about 27 May 2011.

History of share capital

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

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

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

DIRECTORS' REPORT

The directors present their Annual Report and the audited financial statements of Oriflame Cosmetics S.A. ("the Company") and its subsidiaries (together "the Group") for the year ended 31 December 2010.

The Chairman's letter, the CEO statement and the Corporate Governance report as well as the report on internal control and monitoring on pages 50, 8, and 57–63 all form part of this report.

Business review

The Chairman's letter, the CEO statement on pages 50 and 8 includes a fair review of the development of the activities of the Company and its subsidiaries over the year and likely future development of the activities.

Key performance indicators

The key figures of the performance of the Group can be found on page 52 of this Annual Report.

Activities in the field of research & development

In 2010, the Group increased its R&D expenses by 5.2 percent to €11.3 million compared to €10.8 million in 2009.

Capital structure and shareholding

Details of the capital structure of the Company can be found in note 19 and on page 54–55 of this Annual Report.

Restrictions on the transfer of securities or on voting rights

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

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

Agreements between shareholders

As of 31 December 2010, Oriflame Cosmetics S.A. was not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or affect their voting rights.

Related parties

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

Significant direct and indirect shareholdings

During 2010, the Company held none of its own shares.

Employee share scheme

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

Board matters

Details of rules governing the appointment and replacement of Board members and the amendment of the Articles of Association as well as the power of the Board members can be found in the section Corporate Governance report on pages 57–59.

The Board has, by resolutions passed at the 2005, 2008 and the 2010 AGM/EGMs, been authorised by the shareholders to issue up to 4,350,000 shares under the outstanding share incentive plans as follows: By the issue of up to 2,250,000 shares to persons exercising their rights under the 2005 share incentive plan for a period ending one year after 19 May 2010, and by the issue of up to 2,100,000 shares to persons exercising their rights under the 2008 share incentive plan for a period ending five years after 19 May 2008.

During 2010, the Board has issued a total of 165,569 shares under the outstanding share incentive plans and since 2005 a total of 1,452,102 shares. Further details about share issuance under the Company's share incentive plans are found in note 23 – "Equity compensation plans" of the consolidated financial statements.

Employment agreements

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

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

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

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

Principal risks and uncertainties

Details of principal risks and uncertainties can be found on page 61 in the Corporate Governance report, page 62 in the Internal Control Report and in note 28 – "Financial instruments and financial risk management" of the consolidated financial statements. In terms of going concern, the Group's own cash flow should together with existing facilities secure the Company's financing needs for the foreseeable future.

Subsequent events since the end of the financial year

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

CORPORATE GOVERNANCE REPORT

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

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

Comply or Explain

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

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

General Meetings

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

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

A shareholder may attend and vote at General Meetings in person or by proxy. A SDR holder who has been duly registered as such with the Swedish Securities Register Centre (Euroclear), may vote at the meeting by proxy, yet not in person. SDR holders can convert their SDRs into shares if they wish. More information about conversion can be found on www.oriflame.com/investors. A SDR holder wishing to attend a General Meeting must notify Oriflame of his/her intention to attend. The manner in which to notify Oriflame and in which to issue proxy cards is described in the notice convening the General Meeting.

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

The location for Oriflame General Meetings is Luxembourg. Oriflame does not enable for participation in General Meetings at a distance. Oriflame did however, in order to compensate for the above and in light of being listed on the NASDAQ OMX Nordic Exchange, host a shareholders' day in Stockholm on 5 May 2010 where shareholders/SDR holders had the opportunity to meet with members of the Board and Management and to ask questions related to the Annual General Meeting. In advance of the Annual General Meeting 2011 such shareholders' day will be held on 4 May (exact time and location will be announced in connection with the notice to the Annual General Meeting and will be posted under the Investor section on Oriflame's corporate web site).

Board of Directors

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

The Board has established rules of procedure which set forth how and when the Board convenes, and include instruction for the allocation of duties and responsibilities within and between the Board and the CEO, the CFO and the COO. The rules of procedure also contain instructions for financial reporting and set forth how reporting to the Board is to proceed. During 2010, the Board reviewed and revised the rules of procedure for the Board as well as the instructions for the CEO, CFO and COO.

At the 2010 Annual General Meeting a nomination process was adopted for the election of Nomination Committee members, whose task is to prepare and submit proposals to the Annual General Meeting for the election of the Board members and the size of the fees paid to Board members and other Committees of the Board (currently being the Audit Committee and Remuneration Committee).

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

In accordance with Oriflame's Articles of Association, the Board shall consist of not less than three, and not more than ten, Board members without deputies. Currently, the Board consists of nine members. The Board consists of principal shareholders and persons independent of such shareholders. The CEO is also a member of the Board. Remuneration to the Chairman of the Board and the Board members is determined by resolution adopted by the Annual General Meeting. The 2010 Annual General Meeting resolved, as suggested by the Nomination Committee, that the remuneration would remain unchanged compared to the previous two years, whereby €62,500 be paid to the Chairman of the Board and that €25,000 be paid to each respective remaining non-executive director for the period between the AGM 2010 and the AGM 2011. The Annual General Meeting further approved, as suggested by the Nomination Committee and as the previous

* The Swedish Code of Corporate Governance as first published in December 2005, including any amendments and instructions issued by the Swedish Corporate Governance Board up until 31 December 2010.

two years, to allocate €10,000 to each member of the Audit Committee and €5,000 to each member of the Remuneration Committee.

According to the rules of procedure, the Board shall convene at least four times per year, of which at least one meeting is to focus on business strategy issues. During the financial year 2010, Oriflame held fourteen Board meetings, out of which one was a two-day strategy meeting. Secretary at the meetings is the Group's Corporate Legal Director, Pontus Andreasson.

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

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

The CFO is always invited to the quarterly Board meetings. Other members of the Oriflame Management are from time to time invited to meetings with the Board in order to present issues related to their specific areas of responsibility. Auditing issues are carefully considered by the Audit Committee and then reported to the Board of Directors. At least once per year the Board meets with the auditors without the CEO or other members of senior management being present. In 2010 such meetings took place on 9 February and in advance of the 2010 year-end report on 15 February 2011.

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

Board composition and attendance at Board and Committee meetings during 2010

Board member	Attendance		
	Board meeting	Remuneration Committee	Audit Committee
Robert af Jochnick (chairman)	12	3	
Lennart Björk*	1	0	
Magnus Brännström	13		
Anders Dahlvig**	10		
Marie Ehrling	14		4
Lilian Fossum Biner	14	3	
Alexander af Jochnick	14		
Jonas af Jochnick	13		3
Helle Kruse Nielsen	14		4
Christian Salamon	14		4
Total number of meetings in 2010	**14**	**3**	**4**

* Board director until 19 May 2010.
** Board director since 19 May 2010.

Nomination Committee and nomination process

At the Annual General Meeting held on 19 May 2010, the meeting resolved to approve the following nomination process for the election of the Nomination Committee:

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

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

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

In accordance with the nomination process approved by the Annual General Meeting, the Chairman of the Board, Robert af Jochnick, may be elected to the Nomination Committee, which did indeed occur in 2010. Per Hesselmark, Stichting af Jochnick Foundation and Åsa Nisell, Swedbank Robur Fonder were also appointed to the Committee. Per Hesselmark has acted chairman of the Nomination Committee. No remunerations were paid to the members of the Nomination Committee. The Nomination Committee formed in 2010 has in advance of the 2011 AGM met two times. All meetings were attended by all committee members.

The work of the Nomination Committee constituted in 2010 comprised the following: As a basis for the Committee's work, information on the Company's operations and strategic focus was presented by the Chairman of the Board at the first meeting. The Chairman of the Board also reported on the Board's work during the year. The Nomination Committee furthermore met with the chairman of the Audit Committee, Christian Salamon, who reported on the work of the Audit Committee in general and on the work of the Auditor's in particular. As a basis for its work, the Nomination Committee also received a presentation and report of an evaluation conducted by an external consultant concerning the Board and its work. The evaluation revealed that the current Board Members represent a broad spectrum of expertise with genuine industry knowledge and extensive financial know-how with regard to international conditions and markets. The evaluation also showed that the attendance rate at Board meetings was high and that all Board members demonstrated a high level of commitment. After evaluating the work of the Board, the Committee drew the conclusion that the Board has been functioning well and that the critical competences have been adequately represented on the Board. The aim of the principal owners is that elected Board members shall represent knowledge and competence relevant for Oriflame's operations. Independent Board members are included in full compliance with requirements that apply for publicly listed companies in Sweden.

The Nomination Committee has thereafter formulated proposals for the Annual General Meeting to be held on 19 May 2011. The proposals relates to the:

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

The Nomination Committee has decided to propose to the 2011 Annual General Meeting that it re-elects all current Board members, being Robert af Jochnick (Chairman), Magnus Brännström, Marie Ehrling, Anders Dahlvig, Lilian Fossum Biner, Alexander af Jochnick, Jonas af Jochnick, Helle Kruse Nielsen and Christian Salamon. Anders Dahlvig, Marie Ehrling, Lilian Fossum Biner, Helle Kruse Nielsen and Christian Salamon are independent of the Company, the Company's Management and the Company's large shareholders.

Magnus Brännström is not independent from the Company, being the Company's CEO. Robert, Jonas and Alexander af Jochnick are not independent from the Company nor from its major shareholders: Robert and Jonas af Jochnick are co-founders of the Company and together with other members of the af Jochnick family they constitute the largest shareholder of the Company. They have been members of the Board for more than 13 years. Alexander af Jochnick was an employee of the Company from 1999 to 2007. Alexander af Jochnick continues to be involved in the Company outside his duties as a Board member on a request and availability basis determined by the CEO. Remuneration for his assignments outside the directorship is on a time-spent basis and does not exceed €100,000 per annum and the Board is continuously informed of his assignments for the Company. During 2010, no such additional remuneration was paid to Alexander af Jochnick.

After a review of the Board's compensation, the Nomination Committee resolved to propose to the 2011 Annual General Meeting to increase the Directors' fees from €25,000 to €27,500 and to leave the Chairman fee and Committee fees unchanged.

The Nomination Committee resolved to propose to the 2011 Annual General Meeting that the current Auditors, KPMG, be re-elected.

Remuneration Committee

Each year following the Annual General Meeting, the Board appoints a Remuneration Committee. The Remuneration Committee elected in 2010 consisted of Lilian Fossum Biner and Robert af Jochnick. The task of the Committee is to review remuneration and other material terms of employment for the Company's executive directors, senior executives and other key personnel. Based on its reviews the Remuneration Committee prepares proposals for resolutions, subject to final approval by the Board. The Remuneration Committee meets when necessary. During 2010 the Remuneration Committee has met three times.

Audit Committee

The Company's Audit Committee is appointed by the Board each year following the Annual General Meeting. The Audit Committee reviews internal and external information, works with the external Auditor on the audit plan and internal controls, and discusses with management the audit results. The Audit Committee reviews matters related to the Company's and the Group's accounting, financial reporting and internal control as well as financial risk exposure and risk management. It furthermore reviews the work of the Auditors. Based on their reviews the Audit Committee prepares proposals for resolutions, subject to final approval by the Board. The Audit Committee meets at least biannually. In 2010 the Audit Committee met four times. The composition of the Audit Committee has remained unchanged since 2007 and comprises Marie Ehrling, Jonas af Jochnick, Helle Kruse Nielsen and Christian Salamon. Christian Salamon has acted chairman of the committee. The CFO and the Internal Control Director report to the Audit Committee and are regular invitees to their meetings.

Auditor

The Annual General Meeting held on 19 May 2010 resolved to elect KPMG Audit S.à r.l. as independent auditor in respect of the statutory accounts and consolidated financial statements until the close of business of the next Annual General Meeting to be held on 19 May 2011. KPMG Audit S.à r.l. is the Luxembourg member firm of KPMG International and has been engaged as Oriflame's independent auditor since 21 May 2007. The KPMG Audit S.à r.l. team is headed by Dennis Robertson. During the past four years, KPMG Audit S.à r.l. has provided advice to the Company on fiscal matters. Apart from his engagement with Oriflame, Dennis Robertson holds no assignments for any persons affiliated with Oriflame or for any of Oriflame's larger shareholders. In connection to the year-end audit, Dennis Robertson and members of his team met with the Board on 15 February 2011 in order to present their findings and report on their views on the quality of Group reporting and affiliated matters related to Group auditing. KPMG audit team is also regularly invited and attending the Audit Committee meetings through out the year.

Oriflame Management and Organisation

CEO and Corporate Committee

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

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

Executive Business Review

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

Regional management

Oriflame distributes its products through a network of more than 3.5 million independent sales consultants in more than 60 countries. Group segmentation is based on geographic cosmetics sales by region, currently being CIS & Baltics, EMEA, Asia and Latin America. Each region has its own staff and resources to facilitate its effective control and is headed by a Regional Director. Each Regional Director reports to the COO.

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

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

Global Support and Service

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

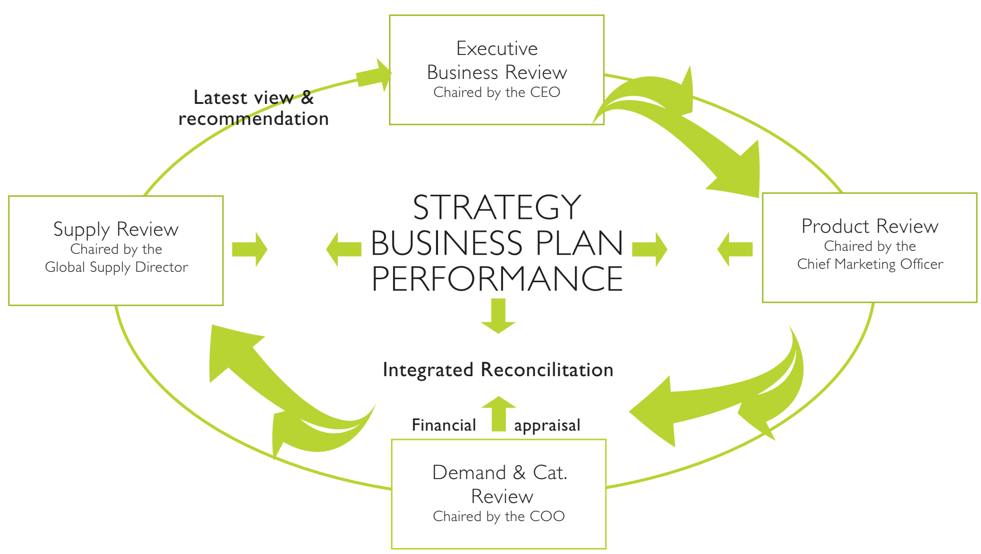
Principles of remuneration for senior executives

Salaries

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

Fixed and variable components

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



Moreover, the Company currently offers a share incentive plan which covers the top (approx.) 200 Executives and Managers. Each year the individuals covered by the plan are invited to invest in a number of shares at the current market price. In return for this they will receive between 0 and 4 free shares in three years time, depending on the increase in operating profit. For further information, see note 23 to the consolidated financial statements in the Annual Report.

Pensions

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

Non-monetary benefits

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

Risk management

Strategic and operational risks

Oriflame's business depends significantly upon its ability to retain its existing sales consultants and recruit new sales consultants. If management is unsuccessful in this regard, the Company's sales are likely to decline. In addition, the loss of key high-level sales consultants could adversely impact the growth of the distribution network and, as a result, sales.

Oriflame's operations in the CIS region accounted for over 50 percent of Group sales and profits in 2010. The Company's business could be materially adversely affected by political and economic instability in this region.

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 in Poland, Sweden, India, China and Russia as well as on third-party manufacturing facilities. Any interruption in these facilities, or the loss of a third-party manufacturer, could negatively impact the business, financial condition and results of operations.

Financial risks

Oriflame is exposed to the risk of currency fluctuations in many countries and these fluctuations may have a material effect on the results of operations and financial condition. The Company experiences both currency translation and currency transaction exposure. Currency fluctuations may affect the comparability of Oriflame's results between financial periods. For further information on financial risks see note 28 to the consolidated financial statements in the Annual Report.

Other risks

Oriflame is exposed to economic, political, tax, legal and business risks associated with its international sales and operations, particularly in emerging markets.

REPORT ON INTERNAL CONTROL AND MONITORING

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

During 2010 the Company continued with the internal control project started in 2008 and has during the year further developed the internal control function in the Group.

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

The development of a separate Internal Control function

In 2008, the Audit Committee and Board of Directors approved and together with the Corporate Committee organised and launched an internal control project and risk management assessment of the Company. The project had several stages and started with review of Financial Statement Risk Assessment (FSRA). A comprehensive FSRA was performed by one of the "Big Four" audit firms supported by a Steering Group from the Company. The review focused on risks that could have a material impact on the financial statements. A gap analysis between existing controls and necessary controls was performed at most significant locations. A self-assessment questionnaire encompassing significant financial risks and suggested controls at Oriflame was produced. The questionnaire was completed by Oriflame entities as at the end of 2008. The results were reviewed by the Vice Presidents Finance (VPFs, formerly known as Regional Finance Controllers or RFCs). In 2009, documentation of process flows at pilot locations and identification of company level monitoring controls were performed. This stage was concluded with the preparation of self-assessment programs on lower risk items that would enable on-going testing performed by management.

The project continued in 2010 with risk-based evaluation and test of the operating effectiveness of the documented controls not only in pilot companies but all markets. Self assessment and other monitoring activities were used as evidence of testing for key control activities (KCAs).

In 2010 it was also decided to evolve the Internal Control project into a separate, permanent function in the Company and an Internal Control Director was appointed. The Internal Control Director reports to the Vice President Group Finance and to the Audit Committe.

Control environment

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

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

The Audit Committee monitors effectiveness of internal controls, considers critical accounting questions and regulatory compliance. The auditors are invited to participate in the regular meetings of the Audit Committee. Since October 2010 the Internal Control Director is a regular invitee to the Audit Committee meetings.

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

In 2010 the Company has analysed and confirmed the requirements for the Control environment as the basis of the Internal Control System (ICS), which follows the COSO framework guidelines. The Company defined minimum requirements at process level and entity wide controls in the seven principles areas: Integrity and ethical values, Board of Directors, Management philosophy, Organisational structure, Financial reporting competencies, Authorities and Human resources.

Risk assessment

The major risk areas for material misstatements in the financial reporting were defined already in 2009. These areas were: inventory, cash and bank, credit process, sales, performance discount and bonuses, and information technology system. There was no reassessment of financial reporting risk in 2010.

Control activities

In 2010 the Company finalised control process descriptions for sales companies in three areas: Inventory control process, Cash and bank control process and Credit control process. Each control process-description defines key control activities (KCA) in the different steps of the processes. The Company also intends to use these documents as training material for new employees in their induction program.

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

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

In 2011, the Company plans to continue with the preparation of the control process description for the remaining three risk areas.

Information and communication

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

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

The control process descriptions were distributed in 2010 to the involved entities.

At the beginning of 2011 the Company decided to invest in a software which will support and further facilitate the internal control process within the Group.

Monitoring

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

Within the internal control project, the following key control activities and risk areas were defined and addressed during 2010:

- Inventory procedures.
- Cash and bank procedures.

The self-assessments of the main controls on the Inventory and Cash and bank processes at the biggest entities were furthermore reviewed by the Company's auditors.

In 2011 the Company plans to continue and further expand this process to also cover the remaining risk areas.

STATEMENT FROM THE BOARD OF DIRECTORS

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

Luxembourg, 14 April 2011

Robert af Jochnick
Chairman of the Board

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

CONSOLIDATED INCOME STATEMENTS

Year ended 31 December

€'000	Note	2010	2009
Sales	3	1,513,596	1,316,595
Cost of sales		(511,117)	(441,813)
Gross profit		**1,002,479**	**874,782**
Other income	4	58,090	52,744
Selling and marketing expenses		(643,544)	(559,456)
Administrative expenses	6, 7	(259,674)	(222,629)
Operating profit		**157,351**	**145,441**
Analysis of operating profit:			
Adjusted operating profit		168,123	146,782
Restructuring	29	(721)	(1,341)
Impairment Iran	29	(10,051)	–
Operating profit		**157,351**	**145,441**
Financial income	9	17,924	3,059
Financial expenses	9	(40,058)	(31,247)
Net financing costs		**(22,134)**	**(28,188)**
Net profit before income tax		**135,217**	**117,253**
Current tax	10	(33,201)	(20,126)
Deferred tax	10, 15	15,521	3,185
Total income tax expense	10	(17,680)	(16,941)
Net profit		**117,537**	**100,312**
Earnings per share, €	11		
Basic		2.07	1.77
Diluted		2.06	1.76

The attached notes on pages 70 to 86 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Year ended 31 December

€'000	Note	2010	2009
Net profit		**117,537**	**100,312**
Other comprehensive income			
Foreign currency translation differences for foreign operations	9, 20	16,158	(6,744)
Effective portion of changes in fair value of cash flow hedges, net of tax	9	(478)	2,407
Other comprehensive income for the year, net of income tax		**15,680**	**(4,337)**
Total comprehensive income for the year		**133,217**	**95,975**

The attached notes on pages 70 to 86 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

€'000	Note	31 December 2010	31 December 2009
Assets			
Property, plant and equipment	12	184,151	134,137
Intangible assets	13	19,999	18,670
Investment property	14	1,108	1,797
Deferred tax assets	15	33,530	17,187
Other long-term receivables		1,336	3,538
Total non-current assets		**240,124**	**175,329**
Inventories	16	286,350	221,309
Trade and other receivables	17	81,981	65,308
Tax receivables		7,188	5,320
Prepaid expenses		42,135	39,288
Derivative financial assets	28.3	11,823	1,473
Cash and cash equivalents	18	86,248	107,213
Total current assets		**515,725**	**439,911**
Total assets		**755,849**	**615,240**
Equity			
Share capital	19	71,225	71,018
Reserves	20	(47,722)	(65,985)
Retained earnings		201,880	153,088
Total equity		**225,383**	**158,121**
Liabilities			
Interest-bearing loans	21	282,268	260,138
Other long-term non interest-bearing liabilities		458	418
Deferred income		427	455
Deferred tax liabilities	15	4,462	4,098
Total non-current liabilities		**287,615**	**265,109**
Current portion of interest-bearing loans	21	2,556	2,155
Trade and other payables	22	101,370	76,185
Tax payables		16,633	14,568
Accrued expenses		104,777	88,063
Derivative financial liabilities	28.3	199	427
Pensions reserve		19	1,111
Provisions	26	17,297	9,501
Total current liabilities		**242,851**	**192,010**
Total liabilities		**530,466**	**457,119**
Total equity and liabilities		**755,849**	**615,240**

The attached notes on pages 70 to 86 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

€'000	Note	Share capital	Treasury Shares	Share premium	Legal reserve	Translation reserve	Hedging reserve	Other reserves	Total reserves	Retained earnings	Total Equity
At 1 January 2009		**70,367**	**(87)**	**5,396**	**7,363**	**(80,296)**	**(1,929)**	**13,966**	**(55,587)**	**114,132**	**128,912**
Net profit		–	–	–	–	–	–	–	–	100,312	100,312
Other comprehensive income											
Foreign currency translation differences for foreign operations		–	–	–	–	(6,744)	–	–	(6,744)	–	(6,744)
Effective portion of changes in fair value of cash flow hedges, net of tax		–	–	–	–	–	2,407	–	2,407	–	2,407
Total other comprehensive income for the year, net of income tax		**–**	**–**	**–**	**–**	**(6,744)**	**2,407**	**–**	**(4,337)**	**–**	**(4,337)**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**(6,744)**	**2,407**	**–**	**(4,337)**	**100,312**	**95,975**
Issuance of new shares	19	651	–	2,836	–	–	–	–	2,836	–	3,487
Sale of own shares		–	87	–	–	–	–	–	87	27	114
Share incentive plan 2006 (release)		–	–	–	–	–	–	(8,984)	(8,984)	8,984	–
Dividends	20	–	–	–	–	–	–		–	(70,367)	(70,367)
At 31 December 2009		**71,018**	**–**	**8,232**	**7,363**	**(87,040)**	**478**	**4,982**	**(65,985)**	**153,088**	**158,121**
Net profit		–	–	–	–	–	–	–	–	117,537	117,537
Other comprehensive income											
Foreign currency translation differences for foreign operations		–	–	–	–	16,158	–	–	16,158	–	16,158
Effective portion of changes in fair value of cash flow hedges, net of tax		–	–	–	–	–	(478)	–	(478)	–	(478)
Total other comprehensive income for the year, net of income tax		**–**	**–**	**–**	**–**	**16,158**	**(478)**	**–**	**15,680**	**–**	**15,680**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**16,158**	**(478)**	**–**	**15,680**	**117,537**	**133,217**
Issuance of new shares	19	207	–	3,740	–	–	–	–	3,740	–	3,947
Share incentive plan		–	–	–	–	–	–	1,116	1,116	–	1,116
Share incentive plan 2007 (release)		–	–	–	–	–	–	(2,273)	(2,273)	2,273	–
Dividends	20	–	–	–	–	–	–	–	–	(71,018)	(71,018)
At 31 December 2010		**71,225**	**–**	**11,972**	**7,363**	**(70,882)**	**–**	**3,825**	**(47,722)**	**201,880**	**225,383**

The attached notes on pages 70 to 86 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended 31 December

€'000	Note	2010	2009
Operating activities			
Net profit before income tax		**135,217**	**117,253**
Adjustments for:			
Depreciation and impairment of property, plant and equipment	8, 12, 14	21,802	18,823
Amortisation of intangible assets	8, 13	4,179	2,726
Change in fair value of borrowings		5,146	–
Impairment Iran	29	7,139	–
Deferred income		(28)	(84)
Share incentive plan		1,116	–
Unrealised exchange rate differences		1,178	(15,257)
(Profit)/loss on disposal of property, plant and equipment, intangible assets and investment property		(496)	78
Financial income		(12,401)	(564)
Financial expenses		40,058	31,247
Operating profit before changes in working capital and provisions		**202,910**	**154,222**
Increase in trade and other receivables, prepaid expenses and derivative financial assets		(19,368)	(3,066)
(Increase)/decrease in inventories		(66,916)	19,460
Increase in trade and other payables, accrued expenses and derivative financial liabilities		24,320	9,312
Decrease in provisions		(1,211)	(2,982)
Cash generated from operations		**139,735**	**176,946**
Interest and bank charges paid		(25,297)	(27,494)
Income taxes paid		(24,137)	(17,765)
Cash flow from operating activities		**90,301**	**131,687**
Investing activities			
Proceeds on sale of property, plant and equipment, intangible assets and investment property		1,587	311
Interest received		4,490	564
Purchases of property, plant and equipment, and investment property		(62,675)	(21,664)
Purchases of intangible assets		(5,404)	(7,660)
Cash flow used in investing activities		**(62,002)**	**(28,449)**
Financing activities			
Proceeds from borrowings		216,677	311,040
Repayments of borrowings		(202,750)	(310,000)
Proceeds from sale of own shares		–	114
Proceeds from issuance of new shares		3,947	3,487
Payments of finance lease liabilities		(89)	–
Dividends paid		(70,978)	(70,307)
Cash flow used in financing activities		**(53,193)**	**(65,666)**
Change in cash and cash equivalents		**(24,894)**	**37,572**
Cash and cash equivalents at 1 January		107,092	68,310
Effect of exchange rate fluctuations on cash held		3,835	1,210
Cash and cash equivalents at the end of the year net of bank overdrafts	18	**86,033**	**107,092**

The attached notes on pages 70 to 86 form an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 • Status and principal activity

Oriflame Cosmetics S.A. ("OCSA" or the "Company") is a holding company incorporated in Luxembourg and registered at 24 Avenue Emile Reuter, L-2420 Luxembourg. The principal activity of the Company's subsidiaries is the direct sale of cosmetics. The consolidated financial statements of the Company as at and for the year ended 31 December 2010 comprise the Company and its subsidiaries (together referred to as the "Group").

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

(a) Statement of compliance

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

The financial statements were authorised for issue by the Board of Directors on 14 April 2011.

(b) Basis of preparation

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

(c) Use of estimates and judgements

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

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

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

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

(d) Changes in accounting policies and presentation

As of 1 January 2010, Oriflame Cosmetics S.A. adopted new standards and amendments to standards which became effective January 1, 2010. These new accounting standards had no material effect on the consolidated financial statements.

Changes in presentation

Consolidated income statements

The Group has changed the presentation of its consolidated income statements by allocating restructuring expenses and impairment losses by function. These allocations have an impact on the operating profit. A reconciliation of the operating profit before restructuring expenses and impairment losses ("Adjusted operating profit") has been presented on the face of the consolidated income statements. Comparative figures have been presented accordingly.

Consolidated statements of financial position

The Group has enhanced the presentation of its consolidated statements of financial position by disclosing Tax receivables, Prepaid expenses, Derivative financial assets, Accrued expenses and Derivative financial liabilities in a separate line on the face of the consolidated statements of financial position. Comparative information has been presented accordingly.

Consolidated statements of cash flows

The Group has changed the presentation of its consolidated statements of cash flows. Cash Flow from operating activities has been derived from the consolidated income statements, starting with the net profit before income tax and adjusted for the effects of transactions of a non-cash nature and for changes of balance positions of working capital. Comparative figures have been presented accordingly.

Rental income

From 2010 onwards, the rental income is recognised within other income in the consolidated income statements over the term of the lease. In 2009, rental income from investment property was recognised within administrative expenses in the consolidated income statements.

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

(e) Basis and scope of consolidation

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

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

The scope of consolidation is affected by acquisitions and disposals. In 2010, the group has started operations in Algeria.

(f) Foreign currencies

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

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

(g) Derivative financial assets and liabilities

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

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

The fair value of interest rate swaps and cross currency interest rate swaps are the estimated amount which the Group would receive or pay to terminate the swap at the reporting date. The estimated amount is based on quoted market rates.

The fair value of forward exchange contracts is their quoted market price at the reporting date, being the present value of the quoted forward price.

The fair value of interest rate caps is the estimated amounts which the Group would receive or pay when unwinding those instruments at the reporting date.

(h) Hedging

(i) Cash flow hedges

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

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

(ii) Hedges of monetary assets and liabilities

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

(iii) Hedge of net investment in foreign operation

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

(i) Sales revenue and other income

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

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

From 2010 onwards, the rental income is recognised within other income in the consolidated income statements over the term of the lease. In 2009, rental income from investment property was recognised within administrative expenses in the consolidated income statements.

(j) Employee benefits

(i) Pension obligations

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

(ii) Equity related compensation

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

(k) Taxation

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

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

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

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

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

(l) Intangible assets

(i) Goodwill

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

(ii) Other intangible assets

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

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

(iii) Subsequent expenditure

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

(iv) Research and development

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

(v) Amortisation

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

(m) Property, plant and equipment

(i) Owned assets

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

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

(ii) Leased assets

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

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

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

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

(n) Investment property
Investment properties are properties that are held either to earn rental income or for capital appreciation or for both. Investment property is recorded at cost less accumulated depreciation. Depreciation is charged to the consolidated income statements on a straight-line basis with rates between 2 percent to 5 percent per year. In 2009, rental income from investment property was recognised within administrative expenses in the consolidated income statements over the term of the lease. From 2010 onwards, the rental income is recognised within other income in the consolidated income statements.

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

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

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

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

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

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

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

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

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

(s) Share capital
Dividends are recognised as a liability in the period in which they are declared.

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

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

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

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

(v) Trade payables
Trade payables are stated at cost.

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

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

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

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

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

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

(y) Segment reporting
As of 1 January 2009 the Group determines and presents operating segments based on the information that internally is provided to the Executive 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 Executive 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 Executive Committee include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate and overhead assets, liabilities and expenses not allocated to the operating segments. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill. In the framework of the entity-wide disclosures regarding "information about geographical areas", the Management is of the opinion that materiality threshold is 20 percent for Group purposes.

(z) New standards and interpretations not yet adopted

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

Standard/Interpretation		Effective date	Planned application by the Group
IAS 32 amended – Financial Instruments: Presentation – Classification of Rights Issues	*	1 February 2010	Reporting year 2011
IFRIC 19 – Extinguishing – Financial Liabilities with Equity Instruments	*	1 July 2010	Reporting year 2011
Improvements to IFRSs (May 2010)	*	1 July 2010 1 January 2011	Reporting year 2011
IAS 24 Related Party Disclosures (revised 2009)	**	1 January 2011	Reporting year 2011
IFRIC 14 amended : IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – Prepayments of a Minimum Funding Requirement	*	1 January 2011	Reporting year 2011
IFRS 7 amended – Financial Instruments: Disclosures – Transfers of Financial Assets	*	1 July 2011	Reporting year 2012
IAS 12 amended – Income Taxes – Recovery of Underlying Assets	*	1 January 2012	Reporting year 2012
IFRS 9 – Financial Instruments: Measurement and Classification	***	1 January 2013	Reporting year 2013

* No impact or no significant impact is expected on the consolidated financial statements.
** The impact on the consolidated financial statements is expected to result in additional disclosures or changes in presentation.
*** The impact on the consolidated financial statements can not yet be determined with sufficient reliability.

Note 3 • Segment reporting

Operating segments

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

Unallocated items

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

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

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

As per 31 December 2010

€'000	CIS & Baltics	EMEA	Latin America	Asia	Manu-facturing	All other segments	Total segments	Unallocated items	Total
Sales	861,035	407,931	84,146	143,629	4,388	12,467	**1,513,596**	–	**1,513,596**
Impairment Iran	–	–	–	(10,051)	–	–	**(10,051)**	–	**(10,051)**
Operating Profit	134,999	55,378	2,981	(41)	14,318	1,312	**208,947**	(51,596)	**157,351**
Net financing costs									**(22,134)**
Net profit before income tax									**135,217**
Total income tax expense									**(17,680)**
Net profit									**117,537**
Capital Expenditure	(12,074)	(2,796)	(706)	(3,606)	(38,063)	–	**(57,245)**	(10,834)	**(68,079)**
Depreciation & Amortisation	(6,163)	(2,201)	(1,201)	(1,960)	(6,387)	(34)	**(17,946)**	(7,583)	**(25,529)**
Segment Assets	354,614	144,303	36,995	61,155	169,580	33,638	**800,285**	(44,436)	**755,849**
Segment Liabilities	44,353	19,249	7,040	16,343	48,936	383	**136,304**	394,162	**530,466**
Goodwill	–	1,053	–	4,345	–	–	**5,398**	–	**5,398**

As per 31 December 2009

€'000	CIS & Baltics	EMEA	Latin America	Asia	Manu-facturing	All other segments	Total segments	Unallocated items	Total
Sales	725,044	395,425	62,533	112,933	6,983	13,677	**1,316,595**	–	**1,316,595**
Operating Profit	106,787	58,369	1,295	9,138	(3,161)	1,461	**173,889**	(28,448)	**145,441**
Net financing costs									**(28,188)**
Net profit before income tax									**117,253**
Total income tax expense									**(16,941)**
Net profit									**100,312**
Capital Expenditure	(6,911)	(1,857)	(1,846)	(2,248)	(4,783)	–	**(17,645)**	(11,679)	**(29,324)**
Depreciation & Amortisation	(4,718)	(556)	(820)	(1,541)	(5,053)	(47)	**(12,735)**	(8,814)	**(21,549)**
Segment Assets	281,864	158,509	30,514	54,911	91,891	34,770	**652,459**	(37,219)	**615,240**
Segment Liabilities	39,630	23,364	6,269	14,481	45,067	418	**129,229**	327,890	**457,119**
Goodwill	–	1,053	–	4,345	–	–	**5,398**	–	**5,398**

Sales by major country

€ million	2010	2009
Russia	506.0	436.9
Oriflame Cosmetics SA, Luxembourg*	6.1	5.6
All other	1,001.5	874.1
Total	**1,513.6**	**1,316.6**

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

Non-current assets by major country **

€ million	2010	2009
Russia	90.7	56.1
Oriflame Cosmetics SA, Luxembourg*	19.0	18.2
All other	95.6	80.3
Total	**205.3**	**154.6**

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

Sales by product category

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

€ million	2010	2009
Colour Cosmetics	363.3	326.5
Skin Care	336.0	319.9
Personal & Hair care	301.2	262.0
Fragrances	322.4	260.7
Accessories & Wellness	190.7	147.5
Total	**1,513.6**	**1,316.6**

Major customers

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

Note 4 • Other income

Other income are composed of:

€'000	2010	2009
Freight income	34,948	32,696
Printing income	22,591	20,048
Rental income	551	–
Other income	**58,090**	**52,744**

In 2009, rental income from investment property which amounted to €0.5 million was recognised within administrative expenses in the consolidated income statements. From 2010 onwards, rental income is recognised within other income in the consolidated income statements.

Note 5 • Employee benefit expense

€'000	2010	2009
Salaries and wages	128,492	114,379
Social security contributions	26,613	23,141
Pension expenses	4,688	3,725
Equity settled transactions	1,116	–
	160,909	**141,245**

The average number of full-time equivalents in 2010 was 8,353 (8,281).

Note 6 • Auditors' remuneration

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

€'000	2010	2009
Auditors' remuneration for annual and consolidated accounts	1,292	1,209
Auditors' remuneration for other assurance services	177	97
Auditors' remuneration for tax advisory services	175	175
Auditors' remuneration for non-audit services	56	26
	1,700	**1,507**

The auditors' remuneration note is based on the European directive which has been adopted in Luxembourg law in December 2009. For that reason, the 2009 figures are not comparable with the annual report 2009.

Note 7 • Research and Development

€'000	2010	2009
Research and development	11,341	10,780

Note 8 • Depreciation and Amortisation

€'000	2010	2009
Depreciation	21,350	18,823
Amortisation	4,179	2,726
Depreciation and amortisation expenses	**25,529**	**21,549**

In 2010 amortisation expenses includes €60 (€58) which were presented in cost of sales.

Note 9 • Financial income and expense

Recognised in the consolidated income statements

€'000	2010	2009
Interest income on bank deposits	836	564
Cross currency interest rate swaps interest income	5,403	–
Change in fair value of financial assets and liabilities at fair value held for trading:		
– Cross currency interest rate swaps gain	6,162	–
Foreign exchange gains, net	5,523	2,495
Total financial income	**17,924**	**3,059**
Bank charges and interest expense on loans carried at amortised cost	(23,682)	(23,137)
Interest expense on loan carried at fair value	(5,167)	–
Cross currency interest rate swaps interest expense	(3,312)	–
Change in fair value of financial assets and liabilities at fair value held for trading:		
– Forward exchange rate contracts expense	(87)	(7,283)
– Interest rate swaps expense	(168)	(736)
– Interest rate caps expense	(1,140)	(91)
Change in fair value of financial assets and liabilities at fair value designated as such upon initial recognition:		
– USD loan fair value loss	(5,146)	–
Write-off of cash and cash equivalents Iran *	(1,356)	–
Total financial expense	**(40,058)**	**(31,247)**
Net financing costs	**(22,134)**	**(28,188)**

Recognised in other comprehensive income

€'000	2010	2009
Effective portion of fair value of cash flow hedge	–	531
Income tax on effective portion of fair value of cash flow hedge	–	(53)
Effective portion of fair value of cash flow hedge, net of tax	**–**	**478**
Net (loss)/gain on revaluation of cash flow hedges	(185)	528
Net change in fair value of cash flow hedges transferred to profit or loss:		
Administrative expense	(346)	1,574
Financial income	–	(173)
Current tax	53	–
Effective portion of changes in fair value of cash flow hedges, net of tax	**(478)**	**2,407**
Foreign currency translation differences for foreign operations	**16,158**	**(6,744)**
Financial income/(expense) recognised in other comprehensive income, net of tax	**15,680**	**(4,337)**

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

Note 10 • Income tax expense

€'000	%	2010	%	2009
Recognised in the consolidated income statements				
Current tax expense		33,165		20,090
Adjustment for prior years		36		36
		33,201		**20,126**
Deferred tax expense:				
Origination and reversal of temporary differences		(4,071)		(3,027)
Recognition of previously unrecognised deductible temporary differences		(5,696)		–
Recognition of previous unrecognised tax losses brought forward		(5,754)		(158)
		(15,521)		**(3,185)**
Total income tax expense in the consolidated income statements		**17,680**		**16,941**
Reconciliation of effective tax rate				
Net profit before income tax		135,217		117,253
Average applicable tax rate, %		11.7		11.0
Tax at applicable tax rate	11.7	15,779	11.0	12,932
Adjustment to tax expenses				
Non-deductible expenses	3.3	4,477	3.8	4,504
Utilisation of previously unrecognised tax losses brought forward	(2.5)	(3,351)	(1.8)	(2,055)
Recognition of previously unrecognised tax losses brought forward	(4.3)	(5,754)	(0.1)	(158)
Recognition of previously unrecognised deductible temporary differences	(4.2)	(5,696)	(0.0)	–
Increase/(release) of tax provision	6.7	9,006	(0.6)	(698)
Withholding taxes	1.8	2,417	1.7	1,934
Other taxes	0.6	766	0.4	446
Adjustments in respect of prior years	0.0	36	0.0	36
Tax expense	**13.1**	**17,680**	**14.4**	**16,941**
Effective tax rate, %		**13.1**		**14.4**

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

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

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

Note 11 • Earnings per share

(a) Basic

Earnings per share are based on the net profit attributable to ordinary shareholders of €117,537 (€100,312) and the weighted average number of shares outstanding during the year. The weighted average number of shares used in the computation was 56,879,908 for the year to 31 December 2010 (56,536,181). Treasury shares were deducted in calculating the weighted average number of shares outstanding.

(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 23). The weighted average number of ordinary shares adjusted for the share schemes can be specified as follows:

Number of shares	2010	2009
Weighted average number of shares outstanding (basic)	56,879,908	56,536,181
Effect of share schemes	220,414	467,629
Weighted average number of shares outstanding (diluted)	**57,100,322**	**57,003,810**

Diluted earnings per share are based on the same net profit for the year as used in calculating basic earnings per share, because the total number of shares has been increased by the number of shares deemed to have been issued for no consideration.

Note 12 • Property, plant and equipment

€'000	Freehold Land & buildings	Improve-ments to leasehold property	Plant & machinery	Furniture & equipment	Computer equipment	Motor vehicles	Under construction	Total
Cost								
At 31 December 2008	**92,574**	**23,794**	**59,887**	**18,790**	**27,887**	**5,847**	**–**	**228,779**
Additions	4,643	3,499	5,639	2,823	4,487	547	–	21,638
Disposals	(87)	(452)	(723)	(550)	(4,713)	(611)	–	(7,136)
Re-classification	37	–	(42)	5	(1,879)	8	–	(1,871)
Translation	(2,314)	(178)	506	(460)	(121)	(54)	–	(2,621)
At 31 December 2009	**94,853**	**26,663**	**65,267**	**20,608**	**25,661**	**5,737**	**–**	**238,789**
Additions	18,349	5,841	14,510	2,790	4,195	1,045	15,941	62,671
Disposals	(10)	(2,120)	(599)	(786)	(883)	(942)	–	(5,340)
Re-classification	(262)	270	32	(49)	194	(55)	–	130
Translation	4,847	1,656	3,637	1,506	1,898	308	1,207	15,059
At 31 December 2010	**117,777**	**32,310**	**82,847**	**24,069**	**31,065**	**6,093**	**17,148**	**311,309**
Depreciation								
At 31 December 2008	**12,701**	**10,815**	**31,735**	**10,814**	**21,983**	**3,762**	**–**	**91,810**
Charge for the year	2,451	3,182	6,291	2,539	3,501	788	–	18,752
Disposals	(95)	(332)	(455)	(476)	(4,871)	(518)	–	(6,747)
Re-classification	–	5	(55)	(4)	(808)	7	–	(855)
Translation	(154)	(57)	1,982	(57)	(7)	(15)	–	1,692
At 31 December 2009	**14,903**	**13,613**	**39,498**	**12,816**	**19,798**	**4,024**	**–**	**104,652**
Charge for the year	3,016	3,518	6,481	3,295	4,186	783	–	21,279
Impairment Iran	–	64	–	211	118	59	–	452
Disposals	(10)	(2,011)	(510)	(773)	(810)	(880)	–	(4,994)
Re-classification	48	(47)	(4)	(4)	(81)	(11)	–	(99)
Translation	841	906	1,612	900	1,383	226	–	5,868
At 31 December 2010	**18,798**	**16,043**	**47,077**	**16,445**	**24,594**	**4,201**	**–**	**127,158**
Net Book Value								
At 31 December 2008	**79,873**	**12,979**	**28,152**	**7,976**	**5,904**	**2,085**	**–**	**136,969**
At 31 December 2009	**79,950**	**13,050**	**25,769**	**7,792**	**5,863**	**1,713**	**–**	**134,137**
At 31 December 2010	**98,979**	**16,267**	**35,770**	**7,624**	**6,471**	**1,892**	**17,148**	**184,151**

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

Finance leases €'000
Included in property, plant and equipment at 31 December 2010 is the net book value of assets under finance leases totalling €141 (€214), of which computer equipment €6 (€23), motor vehicles €135 (€150), plant and machinery €0 (€41).

Contractual commitment
Due to the construction of the new manufacturing facility in Russia the Group entered into several purchase contracts. At December 2010, the remaining contractual commitment was €9 million (0 million).

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

€'000	Software	Trademarks	Licenses	Property rights	Goodwill	Total
Cost						
At 31 December 2008	**13,248**	**1,082**	**2,924**	**30**	**5,398**	**22,682**
Additions	4,262	98	–	3,300	–	7,660
Disposals	(28)	–	–	–	–	(28)
Re-classification	1,871	–	–	–	–	1,871
Translation	(33)	–	–	–	–	(33)
At 31 December 2009	**19,320**	**1,180**	**2,924**	**3,330**	**5,398**	**32,152**
Additions	5,224	180	–	–	–	5,404
Disposals	(237)	–	–	–	–	(237)
Re-classification	(130)	–	–	–	–	(130)
Translation	690	–	–	–	–	690
At 31 December 2010	**24,867**	**1,360**	**2,924**	**3,330**	**5,398**	**37,879**
Amortisation						
At 31 December 2008	**6,495**	**585**	**2,924**	**–**	**–**	**10,004**
Charge for the year	2,641	85	–	–	–	2,726
Disposals	(28)	–	–	–	–	(28)
Re-classification	855	–	–	–	–	855
Translation	(75)	–	–	–	–	(75)
At 31 December 2009	**9,888**	**670**	**2,924**	**–**	**–**	**13,482**
Charge for the year	4,094	85	–	–	–	4,179
Disposals	(221)	–	–	–	–	(221)
Re-classification	99	–	–	–	–	99
Translation	341	–	–	–	–	341
At 31 December 2010	**14,201**	**755**	**2,924**	**–**	**–**	**17,880**
Net Book Value						
At 31 December 2008	**6,753**	**497**	**–**	**30**	**5,398**	**12,678**
At 31 December 2009	**9,432**	**510**	**–**	**3,330**	**5,398**	**18,670**
At 31 December 2010	**10,666**	**605**	**–**	**3,330**	**5,398**	**19,999**

Goodwill

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

For the purpose of impairment testing, goodwill is allocated by geographical segment as reported in note 3. At reporting date, the goodwill was tested for impairment with a pre-tax discount rate of 9 percent (9 percent). The recoverable amounts of the goodwill are determined based on value-in-use calculations. Both in 2010 and 2009 these calculations used cash flow projections based on financial forecasts made by Group Management covering a five year period.

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

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

Based on the above assumptions Management made several sensitivity analyses and came to the conclusion that any reasonably possible adverse change in the key assumptions would not reduce the recoverable amount below its carrying amount. No impairment loss was recognised in 2010 and 2009.

Property rights

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

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

Based on the above assumptions Management made several sensitivity analyses and came to the conclusion that any reasonably possible adverse change in the key assumptions would not reduce the recoverable amount below its carrying amount. No impairment loss was recognised in 2010 and 2009.

Software Property rights

Included in software additions during the year are costs for own developed software for an amount of €835 (€940).

Note 14 • Investment property

€'000	2010	2009
Gross carrying value at January 1	**2,590**	**2,467**
Additions	4	26
Disposals	(933)	–
Translation effects	173	97
Gross carrying value at December 31	**1,834**	**2,590**
Accumulated depreciation at January 1	**793**	**725**
Charge of the year	71	71
Disposals	(204)	–
Translation effects	66	(3)
Accumulated depreciation at December 31	**726**	**793**
Net book value at year end	**1,108**	**1,797**

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

The related contractual leases contain initial non-cancellable periods from 2 to 3 years. Subsequent automatic renewals periods of 2 years are considered for one of the lease contracts.

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

Amounts included in the consolidated income statements:

€'000	2010	2009
Rental income from investment property	410	503
Direct operating expenses	(24)	(30)
Depreciation	(71)	(71)
Net rental income	**315**	**402**

The fair value of investment properties has been estimated to the amount of €5.8 million (€6.4 million).

The fair value of investment properties has been determined based on valuations performed by Colliers International Ukraine and Alojzy Kiziniewicz, both accredited independant valuers. The fair value of the investment properties has been determined on transactions observable in the market.

Note 15 • Deferred taxation

Deferred tax assets and liabilities at 31 December 2010 are attributable to the items detailed in the table below:

	2010			2009			
€'000	Assets	Liabilities	Net	Assets	Liabilities	Net	Movement
Property, plant and equipment & intangible assets	7,299	(3,642)	3,657	8,844	(3,028)	5,816	(2,159)
Inventories	8,814	(134)	8,680	3,954	(149)	3,805	4,875
Trade and other receivables	1,097	(225)	872	370	(188)	182	690
Accruals	5,153	(30)	5,123	1,341	(6)	1,335	3,788
Other	2,925	(431)	2,494	646	(727)	(81)	2,575
Tax losses carried forward	8,242	–	8,242	2,032	–	2,032	6,210
Tax assets/(liabilities)	**33,530**	**(4,462)**	**29,068**	**17,187**	**(4,098)**	**13,089**	**15,979**
Translation difference							(458)
Deferred tax income							**15,521**

During the year the Group derecognised €0 million (€3 million) of deferred tax assets.

Recognition of deferred tax assets

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

Unrecognised deferred tax assets

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

€'000	2010	2009
Property, plant and equipment & intangible assets	446	1,606
Inventories	1,356	2,938
Trade and other receivables	2,036	3,803
Accruals	8,572	28,974
Other	830	1,394
Total temporary differences*	**13,240**	**38,715**
Tax losses**	135,344	142,794
Total	**148,583**	**181,509**

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

** Of which €3 million (€3 million) expire within one year, €14.6 million (€34.3 million) expire between one and five years and 117.7 million (€105.5 million) in more than 5 years.

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

Note 16 • Inventories

Carrying amount

€'000	2010	2009
Raw materials	19,746	16,829
Work in progress	202	219
Finished goods	268,616	195,222
Other inventories	41,194	31,534
Inventory reserves	(43,408)	(22,495)
Total inventory	**286,350**	**221,309**

During 2010 the Group wrote down €22.5 million (€11.2 million) inventory mainly due to obsolescence which is included in cost of sales expenses.

The carrying amount of inventories carried at fair value less cost to sell was €24.5 million (€27.6 million).

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

Note 17 • Trade and other receivables

€'000	2010	2009
Trade receivables	52,246	44,484
Other receivables	29,735	20,824
Trade and other receivables	**81,981**	**65,308**

Exposure to credit risk

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

Carrying amount

€'000	2010	2009
CIS & Baltics	16,205	9,109
EMEA	27,722	27,297
Latin America	6,561	6,251
Asia	1,758	1,827
	52,246	**44,484**

Impairment losses

The aging of trade receivables at the reporting date was:

	Gross	Impairment	Gross	Impairment
€'000	2010	2010	2009	2009
Not past due	43,815	471	37,691	683
Past due 21 – 180 days	10,730	3,123	9,066	2,791
Past due 181 – 360 days	4,108	3,263	3,256	2,767
Past due 12 – 18 months	3,291	3,195	3,104	2,644
Past due > 18 months	14,255	13,901	14,987	14,735
	76,199	**23,953**	**68,104**	**23,620**

Based on experience the Group records an impairment allowance on trade receivables not past due, which usually is around 1 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	2010	2009
Balance at 1st of January	**23,620**	**21,305**
Impairment loss recognised	5,504	4,659
Specific debt write offs against provision	(5,171)	(2,344)
Balance at 31 December	**23,953**	**23,620**

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

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

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

Note 18 • Cash and cash equivalents net of bank overdrafts

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

€'000	Cash	Short term deposits	Total cash	Bank over-drafts	Total
At 31 December 2008	**67,211**	**1,244**	**68,455**	**(145)**	**68,310**
Net flow	16,004	21,544	37,548	24	37,572
Exchange differences	950	260	1,210	–	1,210
At 31 December 2009	**84,165**	**23,048**	**107,213**	**(121)**	**107,092**
Net flow	(5,040)	(19,760)	(24,800)	(94)	(24,894)
Exchange differences	3,682	153	3,835	–	3,835
At 31 December 2010	**82,807**	**3,441**	**86,248**	**(215)**	**86,033**

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

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

Note 19 • Share capital

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

		No. of shares	€'000
Share capital			
Balance 31 December 2008		**56,293,315**	**70,367**
Issue of new shares	(i)	521,343	651
Balance 31 December 2009		**56,814,658**	**71,018**
Issue of new shares	(iii)	65,647	82
Issue of new shares	(iv)	99,922	125
Balance 31 December 2010		**56,980,227**	**71,225**
Treasury shares			
Balance at 31 December 2008		**2,526**	**87**
Sale	(ii)	(2,526)	(87)
Balance at 31 December 2009		**–**	**–**
Balance at 31 December 2010		**–**	**–**

(i) On 25 June and 19 October 2009 the Group issued 409,600 achievement shares at no consideration for the maturity of the 2006 share incentive plan. The issue of these shares amounting to €0.5 million was financed through share premium, as approved by the EGM of 19 May 2008.

On 21 August and 19 October 2009 the Group issued 104,041 and 7,702 shares to respectively Oriflame employees and sales consultants as part of the 2009 share incentive plan. The consideration received was €3.5 million, of which €0.2 million was credited to share capital and €3.3 million was credited to share premium.

(ii) On 29 April 2009 the Group sold treasury shares for a total consideration of €114. Gain was recognised in retained earnings.

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

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

Note 20 • Reserves

(i) Legal reserve

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

(ii) Translation reserve

Included in the translation loss in 2010 are the following:

(a) Exchange gain of €10 million (€4.4 million loss) arising on long term inter-company debt of an investment nature, and;

(b) A foreign exchange gain of €6.2 million (€2.2 million loss) arising from the translation of financial statements of foreign subsidiaries.

Included in the translation reserve is a revaluation reserve related to certain assets of €9.2 million (€9 million).

(iii) Hedging reserve

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

(iv) Dividends

In May 2009, the AGM of the Company approved a dividend of €1.25 per share, as proposed by the Board of Directors, i.e. €70.4 million in total.

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

The Board of Directors will propose to the AGM in May 2011 a dividend payment of €1.50 per share, amounting to €85.5 million in total.

(v) Other reserve

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

Note 21 • Interest-bearing loans

€'000	2010	2009
Non-current liabilities		
Loans	282,256	260,109
Finance lease long-term liabilities	12	29
	282,268	**260,138**
Current liabilities		
Short-term loans	2,308	1,934
Bank overdrafts	215	121
Finance lease short-term liabilities	33	100
	2,556	**2,155**

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 20 April 2010, identifies three series of fixed-rates' Senior Notes with different maturities: $25 million due April 2015, $70 million due April 2017 and $70 million due April 2020. Interest is paid semi-annually and is in the range between 5 percent and 6.5 percent p.a.

On 9 December 2009 the Company entered into an agreement for a €400 million revolving, multi-currency committed, three year and one month, credit facility (the "Credit Facility"), replacing both the €375 million facility, signed 4 April 2006 and the €130 million facility which was signed on 20 February 2009. The Credit Facility provides that utilisations may be in euro or other freely convertible currencies, as agreed. The interest payable is calculated at the relevant inter-bank rate plus the applicable margin.

Both the Credit Facility and the Note Purchase Agreement contain a number of operating covenants, including restrictions on subsidiary borrowings, restrictions on lending and giving guarantees for financial indebtedness and restrictions on the disposal of material assets. It also contains a number of financial covenants which include required ratios of consolidated net debt to consolidated EBITDA, the Group consolidated net worth, interest cover and cap on distributions. The Group was in compliance with these covenants as of 31 December 2010 and 31 December 2009.

Terms and debt repayment schedule

The terms and conditions of outstanding loans were as follows:

€ '000	Currency	Interest rate	Year of maturity	31 December 2010 Face value	31 December 2010 Carrying amount	31 December 2009 Face value	31 December 2009 Carrying amount
Revolving bank facility	EUR	Euribor + margin	2013	95,000	93,989	265,000	260,109
Revolving bank facility	SEK	Stibor + margin	2013	62,462	61,797	–	–
Private placement loan	USD	Fixed rate USD coupon	2015–2020	121,324	126,470	–	–
Finance lease liabilities	PLN/CZK	6% / 11%	2013	48	45	143	129
Short-term loans	Various	between 5% and 13%	2011	2,308	2,308	1,934	1,934
Bank overdrafts	TRL/INR	0% / 15%	2011	215	215	121	121
Total interest-bearing liabilites				**281,357**	**284,824**	**267,198**	**262,293**

At 31 December 2010, the Group had total banking facilities available of €536.5 million (€409.8 million) of which €295.1 million (€277.2 million) has been utilised as bank overdrafts, short- and long-term loans, and guarantees.

Note 22 • Trade and other payables

€'000	2010	2009
Trade payables	67,672	45,210
Other payables	33,698	30,975
Trade and other payables	**101,370**	**76,185**

Note 23 • Equity compensation plans

On 19 May 2005 the Oriflame EGM approved a share incentive plan, according to which key Oriflame employees will be offered to subscribe to a certain number of "investment" shares per year. They are entitled to receive a certain number of "achievement" shares for free for every investment share to which they subscribed on the third anniversary of their subscription in the investment share. Achievement shares granted range from 0 to 4 shares per investment share depending on whether the Group achieves certain growth targets in operating profit over the following three year period. The EGM authorised the Board of Directors to offer up to 150,000 investment shares annually for the years 2005–2007.

On 19 May 2008 the Oriflame EGM approved a share incentive plan for the years 2008–2010, according to which participants will be offered to purchase at fair market terms shares up to €3.5 million per annum. On 19 May 2010 the Oriflame EGM resolved to increase the investment limit to €4 million per annum. The amount of investment shares offered will be determined by the Board of Directors so that the potential dilution under the lifetime of the plan shall amount to less than 3 percent of the share capital of the Group.

The fair value of services received in return for the achievement shares granted is measured by reference to the value of the investment shares, which is the market price at the time of investing, less forecasted dividends that are discounted at a rate of 5 percent per year. In 2010 the total equity compensation cost recorded in Administrative expenses was €1.1 million (nil).

The number of investment shares is as follows:

Share schemes	*2010	2009	2008	2007
Granted of the beginning of the scheme	99,922	111,743	76,001	71,828
Forfeited during 2007	–	–	–	(3,481)
Forfeited during 2008	–	–	(109)	(1,712)
Forfeited during 2009	–	(949)	(713)	(841)
Outstanding at the beginning of the year	**–**	**110,794**	**75,179**	**65,794**
Forfeited during 2010	(618)	(10,627)	(6,873)	(147)
Exercised during 2010	–	–	–	(65,647)
Outstanding at the end of the year	**99,304**	**100,167**	**68,306**	**–**

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

Note 24 • Related parties

Identity of related parties

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

Transactions with key management personnel

The Board of Directors and key management personnel of the Group held beneficial interests in the shares of the Group at 31 December 2010 as follows:

	Number of shares 2010
R. af Jochnick and family	3,973,848
J. af Jochnick and family	4,130,400
Alexander af Jochnick	418,884
Christian Salamon	11,940
Marie Ehrling	300
Lilian Fossum Biner	1,000
Helle Kruse Nielsen	1,000
Anders Dahlvig	4,800
Magnus Brännström	237,960
Jesper Martinsson	211,915
Gabriel Bennet	17,089

The major shareholders, the af Jochnick family and the Stichting af Jochnick Foundation, jointly exercise control over 14,539,133 shares which represents 25.5 percent of the outstanding total shares as at 31 December 2010.

The key management personnel compensation is as follows:

For the year ended 31 December 2010, 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 €289 (€293). The Chairman received €68 (€68).

For the year ended 31 December 2010, the Chief Executive Officer received total compensation of €1,352 (€2,038), of which €731 (€885) was salary and bonus, €423 (€1,000) share incentive plan, €155 (€112) pension contributions under the pension scheme for senior management, and €43 (€41) other benefits and allowances.

Total compensation to 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) who were employed in the year ended 31 December 2010, were €1,831(€1,955), which was made up of €952 (€965) in salaries and bonuses, €367 (€727) share incentive plan, €180 (€116) in payments into pension schemes and €332 (€147) of other benefits and allowances.

Other related party transactions

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

	Transaction value Year ended 31 December		Balance outstanding As at 31 December	
€'000	2010	2009	2010	2009
Services provided by Credus Management AB	–	5	–	(1)
Expenses and employee costs incurred on behalf of and recharged to Medicover S.A.	(1,877)	(1,675)	(242)	(182)
Medicover health care services	342	344	–	–
SRS AB services	585	–	112	–

All transactions with related parties are done on arm's length basis. During the year ending 31 December 2010, 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, invoiced Oriflame for consultancy fees to Oriflame by employees of Credus, other than Robert af Jochnick and Alexander af Jochnick, who was employed by Credus Management AB.

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

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

Note 25 • Group companies

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

Name	Country of incorporation	Percentage share capital held, %
SARL Natural Swedish Cosmetics	Algeria	100
Oriflame Cosmetics LLC	Armenia	100
Oriflame LLC	Azerbaijan	100
Oriflame Cosmetics Foreign LLC	Belarus	100
Oriflame Management SA	Belgium	100
Oriflame Kozmetika BH. D.o.o. Sarajevo	Bosnia	100
Oriflame Bulgaria EOOD	Bulgaria	100
Oriflame de Chile SA	Chile	100
Oriflame Cosmetics (China) Co. Ltd	China	100
Health Food (Beijing) Co Ltd	China	100
Oriflame de Colombia SA	Colombia	100
Oriflame Kozmetika Croatia doo.	Croatia	100
Primajora Limited	Cyprus	100

Name	Country of incorporation	Percentage share capital held, %
Oriflame Czech Republic sro	Czech Republic	100
Oriflame Software sro	Czech Republic	100
Oriflame International ApS	Denmark	100
Oriflame del Ecuador SA	Ecuador	100
Oriflame Egypt Ltd	Egypt	100
Oriflame Estonia OU	Estonia	100
Oriflame Oy	Finland	100
Oriflame Georgia LLC	Georgia	100
Oriflame Kosmetik Vertriebs GmbH	Germany	100
Oriflame Hellas Sole Shareholder Ltd	Greece	100
Oriflame Hungary Kozmetika Kft	Hungary	100
Oriflame India Pvt. Ltd.	India	100
SilverOak Laboratories Pvt. Ltd.	India	100
PT Oriflame Cosmetics Indonesia	Indonesia	100
PT Orindo Alam Ayu	Indonesia	100
Oriflame Persia LLC	Iran	100
Oriflame Research & Development Ltd.	Ireland	100
Oriflame LLP	Kazakhstan	100
Oriflame Cosmetics LLC	Kosovo	100
Oriflame Cosmetics LLC	Kyrgyzstan	100
Oriflame Latvija S.I.A	Latvia	100
Oriflame Kosmetika UAB.	Lithuania	100
Oriflame Kozmetika dooel	Macedonia	100
Oriflame Investments Ltd	Mauritius	100
Oriflame (Mexico) SA de CV	Mexico	100
Servicios Oriflame, SA de CV	Mexico	100
Oriflame International SRL	Moldova	100
Oriflame Mongolia XXK	Mongolia	100
Oriflame Kosmetika MN doo.	Montenegro	100
Oriflame Maroc SARL	Morocco	100
Oriflame Kosmetiek BV.	Netherlands	100
Oriflame Holdings BV.	Netherlands	100
Oriflame Norge A/S	Norway	100
Oriflame Cosmetics Pakistan (PVT) LTD	Pakistan	100
Oriflame Peru S.A.	Peru	100
Oriflame Poland SP zoo.	Poland	100
Oriflame Products Poland SP zoo.	Poland	100
Oriflame Property Investments SP zoo.	Poland	100
Oriflame Cosmeticos Ltda	Portugal	100
SC Cosmetics Oriflame Romania srl.	Romania	100
Oriflame Cosmetics LLC	Russia	100
Oriflame Products LLC	Russia	100
Oriflame Kosmetika d.o.o.	Serbia	100
Oriflame Slovakia sro	Slovak Republic	100
Oriflame Kozmetika d.o.o.	Slovenia	100
Oriflame Cosmeticos S.A.	Spain	100
Oriflame Lanka Private Ltd	Sri Lanka	100
Oriflame Products Sweden SA (Nordium AB)	Sweden	100
Oriflame Cosmetics AB	Sweden	100
Oriflame Services International AB	Sweden	100
Zetes Holdings AB	Sweden	100
Oriflame Cosmetics (Thailand) Ltd	Thailand	100
Oriflame Management Asia Ltc	Thailand	100
Oriflame Kozmetik Urunleri Ticaret Ltd Sirketi	Turkey	100
DP "Oriflame Cosmetics" Ukraine	Ukraine	100
DP "Rielty Ukraine"	Ukraine	100
Oriflame UK Holdings Ltd	United Kingdom	100
Oriflame Kosmetiks Co Ltd	Uzbekistan	100
Oriflame Vietnam Ltd.	Vietnam	100

Note 26 • Provisions, commitments and contingent liabilities

(a) Provisions

€'000	Tax litigations	Restruc-turing	Claims and other	Total
Balance at 1 January 2010	**5,555**	**1,277**	**2,669**	**9,501**
Provisions made during the year	11,114	–	828	11,942
Provisions used during the year	(594)	(1,035)	(579)	(2,208)
Provisions reversed during the year	(1,514)	(157)	(267)	(1,938)
Balance at 31 December 2010	**14,561**	**85**	**2,651**	**17,297**

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

Restructuring provision of €0.1 million relates to the restructuring of global supply.

(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.

One of the Oriflame sales companies received a tax claim for an equivalent of €15.8 million. The management of the Group contest the claim at court and is confident in a favourable outcome regarding part of the claim. The remaining €2.4 million were recognised as a tax litigation provision.

Another Oriflame sales subsidiary is contesting in court a custom duty claim of €1.3 million out of which the Group provided €0.3 million in claims and other provision based on management's assessment for positive outcome.

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

€'000	2010	2009
Within one year	22,152	18,361
Between one and three years	32,459	26,346
Between three and five years	16,957	16,513
Over five years	4,159	21,044
	75,727	**82,264**

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 2010 €34.7 million (€29.6 million) was recognised as an expense in the consolidated income statements in respect of operating leases.

(d) Bank guarantees

At 31 December 2010, the Group had bank guarantees in place of €9.9 million (€11 million).

Note 27 • Pensions

All subsidiaries within the Group operate defined contribution schemes. Pension costs charged for the year for these schemes amounted to €5.4 million (€3.8 million).

Note 28 • Financial instruments and financial risk management

28.1 Financial risk factors

Overview

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

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

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

I Market Risk

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

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

(a) Foreign currency risk

Translation exposure

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

Transaction exposure

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

Strategic currency exposure

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

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

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.

As at 31 December 2010 there were a variety of forward exchange contracts outstanding for an amount equivalent of €9 million (€51.6 million) with maturities ranging from January to December 2011, to hedge selected currency transaction exposures. The Group does not apply hedge accounting for the variety of forward contracts amounting to €9 million at nominal value (€29.9 million) that economically hedge monetary assets and liabilities in foreign currencies, mainly intra-group. Both the changes in fair value of the forward contracts and the foreign exchange gains and losses relating to the monetary assets and liabilities are recognised in the consolidated income statements. At 31 December 2010, the fair value of these forward contracts was €0.1 million loss (€0 million).

During 2010 the Group closed in total €82.4 million (€134.5 million) forward contracts related to the above mentioned variety of forward contracts. The total net realised result on all forward contracts closed in 2010 was €0.1 million loss (€6.2 million gain).

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 income statements.

In November 2010 the Group entered into a SEK560 million loan under the €400 million facility and a cross currency interest rate swap converting the SEK loan into a Euribor 6-month loan which allowed for a reduction in the financing costs. The SEK loan will be rolled-over for two years until November 2012 when the cross currency interest rate swap will finally mature.

Exposure to currency risk

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

2010	CLP	CZK	DKK	KZT	PLN	RUB	SEK	SKK	UAH	IDR
In €'000 equivalents										
Intra-group trading balances	4,964	2,591	838	11,280	(12,889)	87,966	11,235	1,026	42,925	5,649
Trade receivables/(payables)	–	–	–	–	5,396	–	(8,425)	–	–	–
Gross balance sheet exposure	4,964	2,591	838	11,280	(7,493)	87,966	2,810	1,026	42,925	5,649
Forward exchange contracts	(2,000)	(1,000)	–	*(615)	–	–	–	–	(2,204)	**(565)
Net Exposure	**2,964**	**1,591**	**838**	**10,665**	**(7,493)**	**87,966**	**2,810**	**1,026**	**40,721**	**5,084**

2009	CLP	CZK	DKK	KZT	PLN	RUB	SEK	SKK	UAH	IDR
In €'000 equivalents										
Intra-group trading balances	4,721	1,212	1,831	2,572	(15,310)	57,984	9,684	703	13,214	6,951
Trade receivables/(payables)	–	–	–	–	5,408	–	(2,574)	–	–	–
Gross balance sheet exposure	4,721	1,212	1,831	2,572	(9,902)	57,984	7,110	703	13,214	6,951
Forward exchange contracts	(2,500)	(1,000)	(2,000)	*(2,441)	–	–	(9,400)	–	–	–
Net Exposure	**2,221**	**212**	**(169)**	**131**	**(9,902)**	**57,984**	**(2,290)**	**703**	**13,214**	**6,951**

* The Kazakhstan forward exchange contracts are € against USD.
** The Indonesian forward exchange contracts are € against USD.

The following significant exchange rates applied during the year:

	Average rate		Reporting date rate	
€	2010	2009	2010	2009
RUB	40.08	44.15	40.33	43.38
KZT	194.28	205.79	195.23	212.84
UAH	10.50	11.20	10.57	11.44
PLN	4.00	4.33	3.96	4.10

Sensitivity analysis

The Group trades in more than forty currencies. The Group has selected the top four sales operations and shows their impact on operating profit and equity. This analysis assumes that all other variables, in particular interest rates, the exchange rates of other currencies to the euro, the selling prices of the Oriflame entities in the countries under review, remain constant over the year. The analysis is performed on the same basis for 2009. 1 percent strengthening of the euro against the following currencies on average over the reporting year would have increased (decreased) the Group operating profit or loss and equity as shown below.

Effect on Group operating profit in %	2010	2009
RUB	(1.6%)	(1.5%)
UAH	(0.5%)	(0.4%)
KZT	(0.3%)	(0.3%)
PLN	(0.1%)	(0.1%)

Effect on equity in € million	2010	2009
RUB	(1.2)	(0.1)
UAH	0.0	0.2
KZT	(0.2)	(0.1)
PLN	(0.7)	(0.5)

(b) Interest rate risk

Hedge

In March 2009, the Group decided to hedge part of its exposure to rising interest rates until March 2010 via euro denominated interest rate swap agreements. The notional amount of the hedge as at 31 December 2009 was €105 million. The Group received the 6-month euro floating rate semi-annually and paid on average a fixed swap rate of 1.84 percent.

In 2009, the Group classified the interest rate swaps as cash flow hedge until the reimbursement of the underlying loan in December 2009. From then on the Group classified the interest rate swaps as used for trading. The fair value of outstanding interest rate swaps at 31 December 2009 was a liability of €0.2 million and nil as at 31 December 2010.

Not designated as hedge

Exposure to higher interest rates on €195 million of the Group's debt until June 2012, was hedged economically through interest rate cap agreements. The interest rate caps give protection against a rise of 6-month Euribor over 3.5 percent. This series of interest rate caps is also hedging the synthetic loan resulting from the SEK loan and the corresponding cross currency interest rate swap.

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 hedge accounting treatment under IFRS 39, since the underlying hedged item is a derivative itself.

In November 2010, the Group decided to enter into SEK560 million loan under the €400 million credit facility, which was hedged economically by entering into a cross currency interest rate swap where the Group receives 3-month Stibor and pays the 6-month euro floating rate. This cross currency interest rate swap will mature in November 2012 and the Group will rollover SEK560 million loan until the same date.

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) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2009.

	Profit or (loss)		Equity	
Effects in €'000	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
31 December 2010				
Variable rate interest-bearing liabilities	(1,878)	1,878	–	–
Interest rate caps	3,638	(2,500)	–	–
Cross currency interest rate swaps	1,137	(1,192)	–	–
Cash flow sensitivity (net)	**2,897**	**(1,814)**	**–**	**–**
31 December 2009				
Variable rate interest-bearing liabilities	(2,720)	2,720	–	–
Interest rate caps	1,283	(525)	–	–
Interest rate swaps	1,629	(1,629)	–	–
Cash flow sensitivity (net)	**192**	**566**	**–**	**–**

II Credit risk

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

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

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

€'000	2010	2009
Trade and other receivables	81,981	65,308
Cash and cash equivalents	86,248	107,213
Interest rate caps for trading	3,813	698
Forward exchange rate contracts for trading	98	244
Forward exchange rate contracts for hedging	–	531
Cross currency interest rate swaps for trading	7,912	–
	180,052	**173,994**

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

31 December 2009 €'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	262,043	(283,238)	(50,625)	(232,613)	–	–
Finance lease liabilities	129	(143)	(108)	(35)	–	–
Trade and other payables	76,185	(76,185)	(76,185)	–	–	–
Bank overdraft	121	(121)	(121)	–	–	–
Derivative financial liabilities						
Forward exchange rate contracts for trading	259	(259)	(259)	–	–	–
Interest rate swaps for trading	168	(168)	(168)	–	–	–

Cash Flow hedges

The following table indicates the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to occur and to impact the profit or loss:

	2010					2009				
€'000	Carrying amount	Expected cash flows	Less than 1 year	1–3 years	More than 3 years	Carrying amount	Expected cash flows	Less than 1 year	1–3 years	More than 3 years
Forward exchange contracts										
Assets	–	–	–	–	–	531	531	531	–	–

28.2 Capital risk management

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

For the €400 million bank credit facility there is a covenant in place, which limits the distribution of Oriflame's profits to be 60 percent of the Group's distributable profits, whereas the distributable profits are defined as the retained earnings as of 31 December 2009 plus or minus any change in distributable profits for any period thereafter. The USD loan notes agreement dated April 20, 2010 obliges the Group to maintain consolidated net worth of €120 million at each year end for the term of the agreement. Consolidated net worth is defined in the USD loan agreement as the total assets of the Company and its subsidiaries which would be shown as assets on a consolidated balance sheet of the Group as of such time prepared in accordance with IFRS, after eliminating all amounts properly attributable to minority interests, if any, in the stock and surplus of subsidiaries; minus the total liabilities of the Company and its subsidiaries which would be shown as liabilities on a consolidated balance sheet of the Group as of such time prepared in accordance with IFRS.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2010 and 31 December 2009.

28.3 Fair value estimation

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

	31 December 2010		31 December 2009	
€'000	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets carried at amortised cost				
Trade and other receivables	81,981	81,981	65,308	65,308
Cash and cash equivalents	86,248	86,248	107,213	107,213
Total loans and receivables	*168,229*	*168,229*	*172,521*	*172,521*
Total financial assets carried at amortised cost	**168,229**	**168,229**	**172,521**	**172,521**
Financial assets carried at fair value				
Cross currency interest rate swaps for trading	7,912	7,912	–	–
Interest rate caps for trading	3,813	3,813	698	698
Forward exchange rate contracts for trading	98	98	244	244
Total derivatives for trading	*11,823*	*11,823*	*942*	*942*
Forward exchange rate contracts for hedging	–	–	531	531
Total derivatives for hedging	–	–	*531*	*531*
Total derivative financial assets	*11,823*	*11,823*	*1,473*	*1,473*
Total financial assets carried at fair value	**11,823**	**11,823**	**1,473**	**1,473**

€'000	31 December 2010 Carrying amount	Fair value	31 December 2009 Carrying amount	Fair value
Financial liabilities carried at amortised cost				
Loans	(158,095)	(159,809)	(262,043)	(269,544)
Trade and other payables	(101,370)	(101,370)	(252,311)	(252,311)
Finance lease liabilities	(45)	(47)	(129)	(140)
Bank overdrafts	(215)	(215)	(121)	(121)
Total financial liabilities carried at amortised cost	**(259,725)**	**(261,441)**	**(514,604)**	**(522,116)**
Financial liabilities carried at fair value				
USD loan	(126,470)	(126,470)	–	–
Total designated as such upon initial recognition	*(126,470)*	*(126,470)*	–	–
Forward exchange rate contracts for trading	(199)	(199)	(259)	(259)
Interest rate swaps for trading	–	–	(168)	(168)
Total derivatives for trading	*(199)*	*(199)*	*(427)*	*(427)*
Total derivative financial liabilities	*(199)*	*(199)*	*(427)*	*(427)*
Total financial liabilities carried at fair value	**(126,669)**	**(126,669)**	**(427)**	**(427)**
Unrecognised loss		(1,716)		(7,512)

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

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

Derivative financial assets and liabilities
The fair value of forward exchange contracts, interest rate swaps 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 loan 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 loan.

The difference between the USD loan carrying amount and the amount the Group would be contractually required to pay at maturity to the holders of the obligation amounts to €5.1 million (gain) at the reporting date.

Note 28.4 Fair value hierarchy
The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

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

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

€'000	Level 1	Level 2	Level 3	Total
31 December 2010				
USD loan	–	(126,470)	–	(126,470)
Derivative financial assets	–	11,823	–	11,823
Derivative financial liabilities	–	(199)	–	(199)
	–	**(114,846)**	**–**	**(114,846)**

€'000	Level 1	Level 2	Level 3	Total
31 December 2009				
Derivative financial assets	–	1,473	–	1,473
Derivative financial liabilities	–	(427)	–	(427)
	–	**1,046**	**–**	**1,046**

Note 29 • Restructuring and impairment Iran

a) Restructuring
The restructuring costs in the EMEA region of €0.7 million (€1.3 million) are included in the Administrative expenses.

b) Impairment Iran
In August 2010, the Iranian authorities closed Oriflame's operation in Teheran. Oriflame has to date not been presented with any formal allegation as to the reason of this closure. An impairment of all balance sheet positions of €8.5 million has been set up as a result of the uncertain situation.

The impact of this impairment on the balance sheet positions is as follows:

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

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

€'000	
Cost of sales	(6,778)
Selling and marketing expenses	(275)
Administrative expenses	(2,998)
Impairment Iran in operating profit	**(10,051)**
Write-off of cash and cash equivalents	(1,356)
Impact on foreign exchange, net	362
Net financing costs	**(994)**
	(11,045)

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

TO THE SHAREHOLDERS OF ORIFLAME COSMETICS S.A.

Report on the consolidated financial statements

Following our appointment by the General Meeting of the Shareholders dated 19 May 2010, we have audited the accompanying consolidated financial statements of Oriflame Cosmetics S.A., which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 65 to 86.

Board of Directors' responsibility for the consolidated financial statements

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

Responsibility of the Réviseur d'Entreprises agréé

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Oriflame Cosmetics S.A. as of 31 December 2010, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as set out on pages 65 to 86.

Report on other legal and regulatory requirements

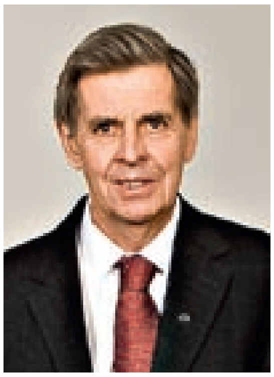
The consolidated Directors' report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements.

Luxembourg, 14 April 2011

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

D.G. Robertson

BOARD OF DIRECTORS



Robert af Jochnick

Chairman of the Board

Born in 1940.

Co-founder of Oriflame.

Elected to the Board in 1970.

Member of the Nomination Committee and the Remuneration Committee.

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

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

Shareholding in Oriflame as at 31 December 2010*: 3,973,848.

Not independent from the Company nor its major shareholders.

Jonas af Jochnick

Board Member

Born in 1937.

Co-founder of Oriflame.

Elected to the Board in 1970.

Member of the Audit Committee.

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

Chairman of Medicover Holding S.A., Celox S.A. and Oresa Ventures S.A.

Shareholding in Oriflame as at 31 December 2010*: 4,130,400.

Not independent from the Company or its major shareholders.

Alexander af Jochnick

Board Member

Born in 1971.

Elected to the Board in 2007.

BSc in Business Administration Stockholm School of Economics.

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

Shareholding in Oriflame as at 31 December 2010*: 418,884.

Not independent from the Company nor its major shareholders.

Magnus Brännström

Chief Executive Officer, CEO

Born in 1966.

Elected to the Board in 2005.

Law studies and MSc, Uppsala University.

Shareholding in Oriflame as at 31 December 2010*: 237,960.

Not independent from the Company being CEO.

Lilian Fossum Biner

Board Member

Born in 1962.

Elected to the Board in 2007.

Member of the Remuneration Committee.

BSc Stockholm School of Economics

Deputy chairman of Retail and Brands AB. Board member of Givaudan SA.

Shareholding in Oriflame as at 31 December 2010*: 1,000.

Independent from the Company and its major shareholders.

Christian Salamon

Board Member

Born in 1961.

Elected to the Board in 1999.

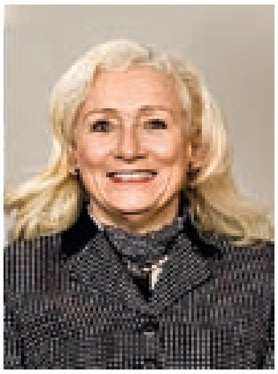
Member of the Audit Committee.

MSc Royal Institute of Technology. MBA Harvard Business School.

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

Shareholding in Oriflame as at 31 December 2010*: 11,940.

Independent from the Company and its major shareholders.



Helle Kruse Nielsen

Board Member

Born in 1953.

Elected to the Board in 2005.

Member of the Audit Committee.

BSc Copenhagen Business School.

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

Shareholding in Oriflame as at 31 December 2010*: 1,000.

Independent from the Company and its major shareholders.

Marie Ehrling

Board Member

Born in 1955.

Elected to the Board in 2007.

Member of the Audit Committee.

BSc Stockholm School of Economics.

Vice Chairman of Nordea Bank AB. Board member of Securitas AB, Schibsted ASA, Loomis AB, Invest Sweden, Safegate AB, World Childhood Foundation, Business Executive Council IVA and CASL at Stockholm School of Economics.

Shareholding in Oriflame as at 31 December 2010*: 300.

Independent from the Company and its major shareholders.

Anders Dahlvig

Board Member

Born in 1957.

Elected to the Board in 2010.

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

Chairman of the New Wave Group.

Board member of Kingfisher plc, Hennes & Mauritz AB (publ) and Axel Johnsson AB.

Shareholding in Oriflame as at 31 December 2010*: 4,800.

Independent from the Company and its major shareholders.

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

GLOBAL SENIOR MANAGEMENT TEAM

Robbin Chibba
VP Finance –
Latin America

Tatiana Egorova
VP Finance –
CIS & Baltics

Magnus Brännström
CEO
& President

Pontus Muntzing
VP Finance – Asia

Carlos Gonzalesguerra
VP Finance –
EMEA

Torsten Hustert
VP Finance
Marketing and R&D

Georgi Karapanchev
VP Group Finance

Michaela Beltcheva
VP Government and
Legal Affairs

Gabriel Bennet
CFO

Christian Jönsson
VP
Information
Technology

Kjell Blydt Hansen
VP Finance
Supply

Michael Cervell
SVP
Direct Sales

Mats Palmquist
SVP and Head
of CIS & Baltics

Thomas Ekberg
SVP and
Head of EMEA

Pavlina Marinova
VP
Sales Operations
Development

Jesper Martinsson
COO

Sergei Kanashin
VP and Head of
Russia and HR CIS
& Baltics

Stefan Karlsson
SVP and Head of
Asia

Sandro Ragonesi
SVP and
Head of Latin
America

Maciej Zyhatynsky
VP Logistics

Joanna Poplawska
SVP
Manufacturing

Mathias Ericsson
VP Quality and Process
Management

Jonathan Kimber
EVP
Global Supply

Edwin Koehler
VP Purchasing

Didier Jourdan
VP Planning

Stephen Syrett
VP
Catalogue &
Forecasting

Jolanta Pastor
VP
Product Marketing

Tesselschade van Dijk Naaijkens
VP Human Resources

Neil Holden
VP
NPD & Artwork

Johan Rosenberg
EVP
Global Marketing
and R&D

Antonia Simon-Stenberg
Senior Advisor
Environmental Sustainability

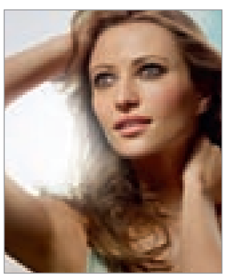
Mary Lord
SVP
Research &
Development

FINANCIAL CALENDAR 2011

- First quarter 2011 on 4 May
- Annual General Meeting on 19 May
- Second quarter 2011 on 10 August
- Third quarter 2011 on 26 October

Distribution principles

The annual report is available at www.oriflame.com, as are interim reports, previous annual reports and other financial materials. For environmental reasons, printed versions of the annual report are only distributed upon request. A printed version of the annual report can be ordered through www.oriflame.com.



Front cover:
One of the new
corporate brand images.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