natural swedish cosmetics

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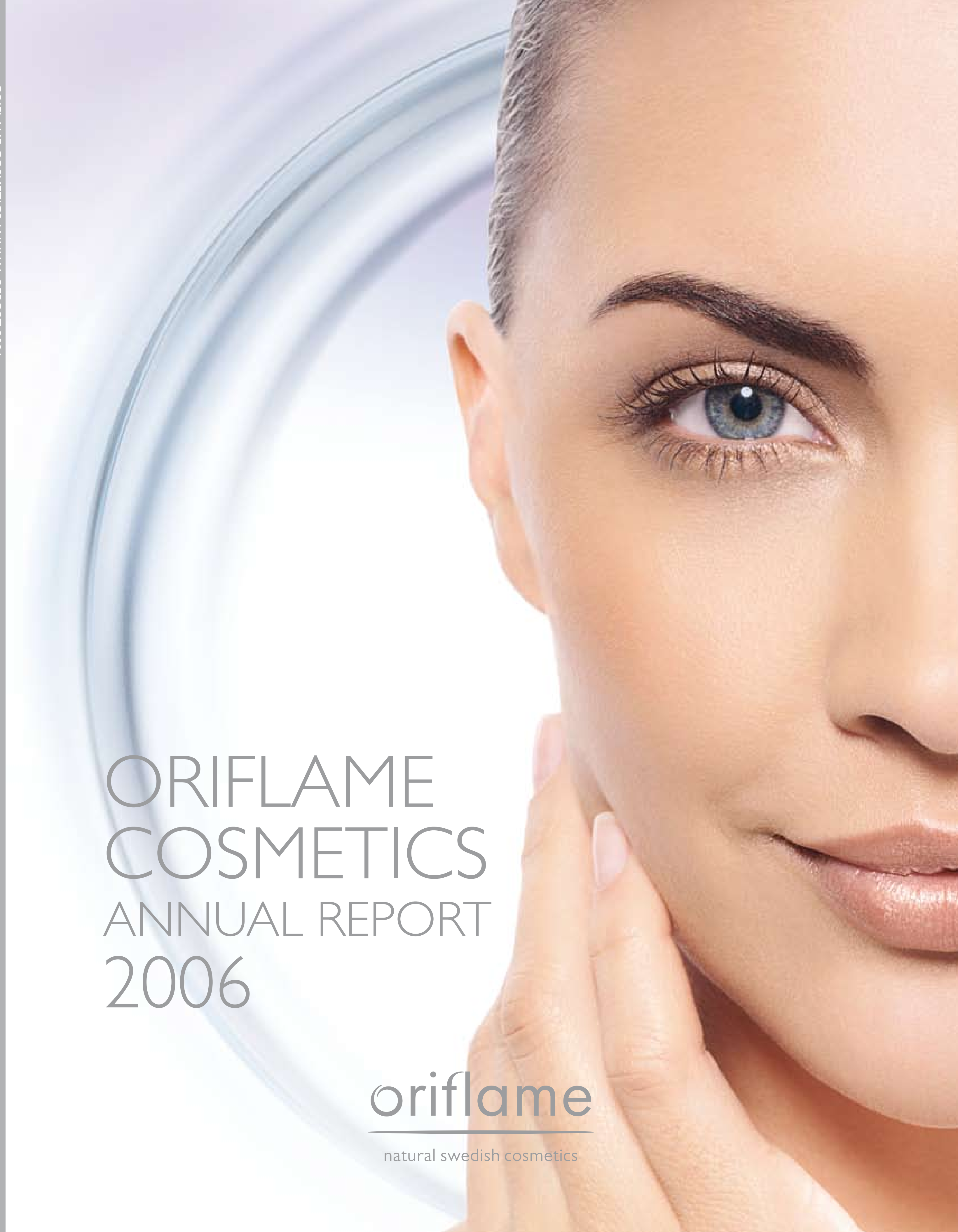
ORIFLAME COSMETICS ANNUAL REPORT 2006



ORIFLAME COSMETICS ANNUAL REPORT 2006

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Contents

Financial calendar 2007

Interim reports and other shareholder activities are planned as follows:

- First quarter 2007 and Shareholders' Day on 25 April, 2007
- Annual General Meeting on 21 May, 2007
- Second quarter 2007 on 1 August, 2007
- Third quarter 2007 on 24 October, 2007

The big secret

Not many companies have been around long enough to celebrate their 40th anniversary. Over the past four decades we have seen far too many entrepreneurs close their businesses and abandon their dreams. It is with this in mind that we humbly celebrate 40 successful years in this year's annual report.

It all began in 1967 in a tatty two-room office in central Stockholm. We brothers and our then partner, Bengt Hellsten, sat and talked one day about our dream. We wanted to give people the opportunity to benefit from good skin care and attractive cosmetics, and we wanted our products to be inspired by the natural beauty that the world associates with Sweden.

Our concept was by no means an obvious contender for success. Not in the 1960s and especially not in Sweden, where the anti-Vietnam War movement, the greens and the student activists were at their height. "Care" was an important word at that time, but it was not particularly associated with one's own body and wellbeing.

The office was plain and uninspiring. In the middle there was a rickety ping-pong table on which we packed our products for delivery to our sales consultants. They were an important part of our business concept. Rather than investing in a chain of shops, which would have taken time and been very costly, we decided to move our retail operations into the homes of Swedish consumers. We had sales consultants all over the country, and each and every one of them had the heart and ambition of an entrepreneur. They wanted to be part of a revolutionary new business and earn money from natural skin care. The products were distributed to their homes, and from day one they had a network of potential customers in their friends, colleagues and neighbours.

That, in a nutshell, was our concept. It is 40 years since we first formulated it and it remains unchanged to this day, with one big difference – our entrepreneurs are now found all over the world, from Moscow to Jakarta, Krakow to Lima.

And that, we believe, is where the secret of our success lies. Oriflame has remained true to its original concept of natural Swedish cosmetics and an entrepreneurial culture. Today, our sales consultants number an incredible two million and we are active in almost 60 countries.

Being part of that revolution in cosmetics has been immensely rewarding to the af Jochnick family. Not merely in terms of financial compensation, but in the belief we have placed in our people and the belief they have held in us.

The people behind Oriflame are the reason for much of the company's success. But how does one run a company with two million entrepreneurs all over the world who speak different languages and hold different values, religious beliefs and political convictions?

The secret here is – culture. A common culture is an invisible bond. It has the power to unite, enthuse and lead people over borders and boundaries that might otherwise separate them. The Oriflame culture gives each person the freedom to set their own targets, income and working hours. It is a culture that is based on respect for and belief in others. We have given millions of people the opportunity to change their lives for the better – an opportunity that many have taken to achieve their dreams. We have given 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 this way, Oriflame has helped tear down walls. We built the first cosmetics factory in Warsaw after the fall of the Berlin Wall, and we were one of the first companies to be given a direct sales licence in India and China.

We have come a long way from that tatty two-room office in Stockholm. We have no plans to change the formula of our success. On the contrary, current trends confirm that our 40-year-old business concept is even more appropriate now than it was then. We are active in those parts of the world with the fastest growth rates, and we are active in the market segment with the greatest growth of all – direct sales.

It is with a mixture of satisfaction and caution that we look forward to the years ahead. The goal is clear – Oriflame's target is to become the world's leading direct sales cosmetics company. That journey has begun!

In conclusion, we wish to thank all of you who have at one time or another supported us on our long journey – forward-looking investors and our 6,000 fantastic employees who develop, design, market and manufacture Oriflame products. But above all, we would like to thank the generations of sales consultants and leaders all over the world – our business partners – who, we are convinced, will still be with us when we achieve our goal of becoming the world's leading direct sales cosmetics company. You are all part of the big secret.

Thank you.

Jonas and Robert af Jochnick

ORIFLAME 40TH ANNIVERSARY 2007

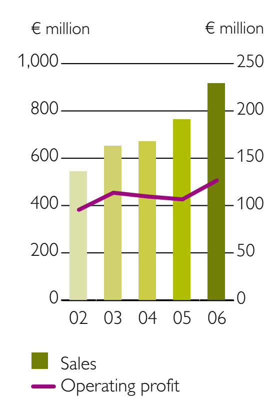
Highlights 2006

- Sales increased by 18 per cent in local currencies and by 20 per cent in euros to €917.9 million.
- Average number of sales consultants increased by 13 per cent to 1.8 million. Closing sales force was up by 15 per cent.
- Productivity increased by 4 per cent in local currencies and 6 per cent in euros.
- Operating profit increased by 19 per cent to €127.1 million (106.7).
- Operating cash flow amounted to €121.6 million (63.4).
- Oriflame's Board of Directors will propose to the AGM a dividend of €1.01 (0.90) per share, amounting to €56.2 million or 60 per cent of net profit.
- New operational platform proposed.

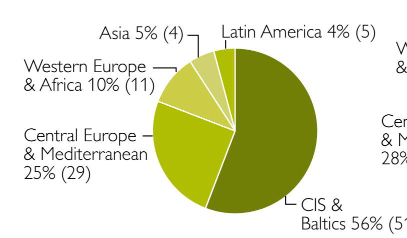
Key figures	2006	2005	Change, %
Sales, €m	917.9	765.7	20
Operating profit, €m	127.1	106.7	19
Net profit, €m*	93.5	90.5	3
Cash flow from operating activities, €m	121.6	63.4	92
Gross margin, %	69.1	68.3	–
Operating margin, %	13.8	13.9	–
Return on capital employed, %	53.5	44.7	–
Net interest bearing debt, €m	193.5	73.5	163
Interest cover	9.3	11.2	–
Earnings per share, diluted, €*	1.61	1.52	6
Average number of sales consultants	1,807,700	1,597,000	13
Average number of employees	5,610	4,961	13

* Excluding loss on disposal of €4.2m related to the UK business.

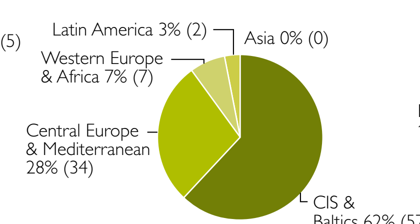
Sales and operating profit



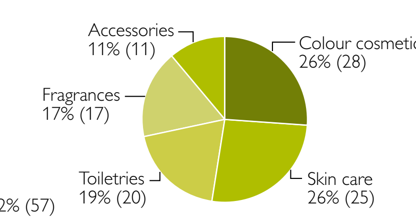
Regional sales 2006



Regional operating profit 2006



Sales by product category 2006



Market entries

1967	Sweden, Denmark
1968	Finland
1969	Norway
1970	UK
1972	Netherlands
1978	Spain
1985	Portugal
1986	Indonesia
1989	Chile
1990	Czecho-slovakia
1991	Poland, Hungary, Mexico
1992	Russia, Turkey, Latvia
1993	Ukraine, Slovakia, Greece
1994	Bulgaria
1995	Peru, Lithuania, Romania
1996	Macedonia, Ecuador, Croatia, India
1997	Estonia, Morocco, Egypt, Slovenia, Sri Lanka
1998	Azerbaijan, Colombia, Bosnia
2000	Kazakhstan, Thailand, Georgia
2001	Serbia & Montenegro
2002	Mongolia
2003	Armenia, Moldova, Vietnam
2005	Belarus
2006	China, Iran

CEO's statement

Looking back, 2006 was a very exciting year. The new organisation fully focused on the implementation of the strategic initiatives that we adopted in 2005. Although we still have very much to do, I am pleased to report that we have made much progress within all of our key areas. Looking forward, we have proposed a new operational platform aiming at strengthening our position even further.

Sales and profit growth for the year again exceeded our expectations. Sales increased by 18 per cent in local currencies and 20 per cent in euros. This was the result of a 13 per cent growth in the average size of the sales force and a productivity rise of 4 per cent. I am especially pleased with the fact that all our regions contributed to growth during the year.

Key to this growth was successful product introductions, improved catalogues and increased catalogue frequency, enhanced service levels to consultants and, most importantly, a highly motivated sales force and organisation. The sales force was up by 15 per cent compared to last year, and the closing sales force was over 1.9 million sales consultants.

In line with our strategy – and as a result of our strong sales growth in the last couple of years – we have invested more than ever in staff, infrastructure, sales and marketing in order to further strengthen our platform for the future. The number of employees was up by more than 10 per cent compared to 2005. As a result of the strong growth in sales, operating profit increased by 19 per cent to €127.1 million. However, operating margins were slightly down from 13.9 to 13.8 per cent.

Although this was another year of large investments, we had a record cash flow. Oriflame's Board of Directors will propose to the AGM a dividend of €1.01 per share, which corresponds to more than 60 per cent of our net profit for the year or a total of €56.2 million. In addition to this, Oriflame redeemed shares to the value of some €153 million during 2006.

Mission and vision

Looking forward, I firmly believe that it is important to have a shared view of what the company's reason for being is – our mission. It is equally important to know where we are going – our vision. During the year, we put a lot of effort into exploring and restating our mission and vision.

Our mission is to fulfil dreams and our vision is to be the number one direct selling beauty company in the world. This might take many years to accomplish, but the most important thing to me is that Oriflame people have the right attitude and will never settle for anything less than being number one. With this mission in place, our strategy is focused on our four cornerstones: people and culture, brands and products, the Oriflame opportunity and world-class service.

New operational platform

As a consequence of our overall mission – and in light of the trends of increasing competition for more complex products and shorter lead times in all phases of our operations – we have also put forward a proposal to adopt a new operational platform. The aim of this proposal is to concentrate a number of our key functions in one group support office in Stockholm, complemented by a new skin care research centre. We also wish to invest further in our R&D centre in Dublin and to move logistics closer to our main markets in Central and Eastern Europe. Changes like these are always difficult to implement as they might involve closure of offices and the fact that some people are unable to follow us on our future journey. However, I firmly believe that this will be beneficial for the long term competitiveness of Oriflame and that we will end up as a much stronger company.

In closing, I feel very proud of our development in 2006. Our management, employees and sales consultants have made a tremendous effort and achieved excellent results during the year.

I am grateful for the opportunity to work for Oriflame and I am very proud of being able to work with people who demonstrate so much professionalism and such a positive attitude. I would like to thank all employees and sales consultants for a successful 2006 and I am looking forward to our creating a great future together.

Brussels, 12 March 2007

Magnus Brännström
Chief Executive Officer

Corporate strategy

In 2005 we clarified and restructured our strategy, keeping true to the same values and principles that have been alive at Oriflame since its foundation in 1967. In 2006 we have taken further steps in line with our strategy.

Long-term financial targets

Oriflame's primary objective is to increase shareholder value through growth in revenue and operating profit and the efficient use of capital.

Oriflame's long-term financial targets are to achieve local currency sales growth of 5–10 per cent per annum and to reach an operating margin of 15 per cent in 2009. These financial targets will be achieved primarily by defending and maintaining market share in the CIS (Commonwealth of Independent States) and CE (Central Europe) regions where we have high penetration levels, and by gaining market share in regions with lower penetration. This will be supported by selective new market entries in all regions.

Our vision – to be the number one beauty company selling direct

We have defined our market as being beauty products sold through the direct sales channel. We have chosen our vision to become number one because we want to foster an attitude and mentality of winning, of always reaching for the top and of striving for continuous improvement. We want as many people as possible to choose to fulfil their dreams with Oriflame rather than with one of our competitors.

Our four strategic cornerstones

Our corporate strategy focuses on four cornerstones which are particularly important if we are to succeed in reaching our vision of becoming number one. These cornerstones are: People and culture, Brands and products, The Oriflame opportunity and World class service.

1. People and culture

We want to attract, develop and retain exceptional people, which is crucial for achieving our vision of becoming number one.

In order to deliver our strategy on People and culture, we need to;

Attract talented people: We understand who we are looking for and what we can offer them; we need to make them see the fun and rewarding opportunity that exists within Oriflame.

Keep people motivated: We offer substantial opportunities for personal development within our organisation and highly competitive performance-related compensation and benefit packages.

Further develop and grow our people: We make sure that every employee has clear objectives and a personal development plan that is supported by training and coaching.

Multiple initiatives were launched in this area during 2006 with the first, and perhaps the most important, being the Oriflame Management Academy. This internal three-step development programme was created to support and strengthen Oriflame's culture, values and operating principles as well as to increase integration and strategic understanding throughout the Group. The intention is that all managers in the company will take part in the programme, with the top 300 entering it first.

2. Brands and products

Our brand studies confirm that the foundation of our uniqueness and success is our Swedish origins. The slogan "Natural Swedish Cosmetics" encompasses everything that Oriflame's beauty offer stands for, and this is what we have in mind when we create new products to treat the customer to a joyful beauty experience with radiant results.

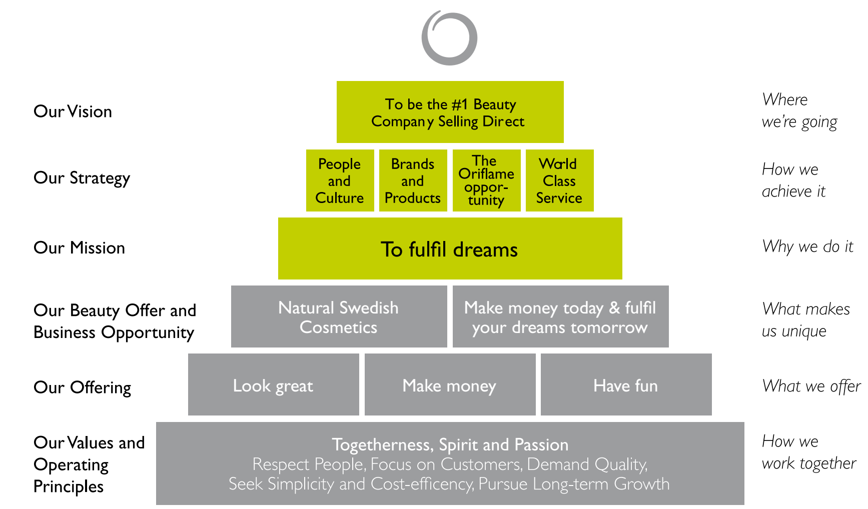
Oriflame will continue to build its strong image linked to its Swedish origins, skin care heritage and the inspiration of nature. Communicating this primarily by word of mouth through our sales consultants will be a key success driver to achieve our vision.

3. The Oriflame opportunity

Oriflame is a direct selling company with a network marketing compensation plan. One thing that differentiates us from our competitors is our unique earning opportunity. The opportunity is summarised in our slogan "Make money today and fulfil your dreams tomorrow!"

Oriflame offers the prospect both of earning money immediately and of fulfilling long-term dreams, and we attract a lot of people with varying levels of ambition. The majority may only sell a little and save on their own and their family's purchases. Even so, they are very important as they and their customer base make the business sustainable over time.

THIS IS ORIFLAME



We have a unique position in the industry in that we offer – more than anywhere else – the opportunity for people to make money and fulfil their dreams.

4. World-class service

Oriflame is always striving to make it easy to become a sales consultant. It should be easy to start, easy to order products, and easy to receive and pay for the products.

Oriflame offers world-class service to our consultants and end-users through a product fulfilment process that delivers on our promises. We proactively use the interaction with our consultants and consumers as an opportunity to differentiate ourselves from the competition. Service is used as a competitive advantage, a chance to positively surprise our target audience and to create loyalty.

The first strategic initiative in this area is the large-scale Product Fulfilment project which was launched in 2006. The aim of the project is to create a smoother and stronger product fulfilment process in our company. This process is expected to deliver increased operational efficiencies and improved customer service levels already during 2007.

Our mission – to fulfil dreams

So why do we work so hard with our strategic cornerstones and company initiatives, and why are we striving to become the number one beauty company selling direct? The reason why we exist as a company lies in our mission statement – "To fulfil dreams".

We are a vehicle for customers, consultants and employees to fulfil their dreams and lead a richer and more meaningful life. For customers, we offer a way to look great and have fun by using our Natural Swedish Cosmetics. Our sales consultants can enjoy the many facets of direct selling and cosmetics. For our employees, we foster a culture where personal development and internal promotion make it possible for dedicated and capable people to realise their full potential and career dreams.

Just as with our independent leaders, this does not mean that a person's dreams will be served on a silver platter – but the opportunity is there: how far they go depends on them, their abilities and how much effort they are willing to invest.

At Oriflame we know what our dream is and we are willing to make the effort to pursue it. We will continue to deliver on our four cornerstones, the foundation of our strategy, always with the attitude of becoming number one.

The industry

The worldwide cosmetics and toiletries market is increasing in value, driven by solid growth primarily in Eastern Europe, Latin America and Asia.

Strong market development

The global market for cosmetics and toiletries increased by 5.5 per cent in 2006, reaching €217 billion. Growth was primarily driven by the emerging economies of Eastern Europe, Latin America and Asia. Russia was one of the strongest markets in Eastern Europe. Boosted by a burgeoning middle class, the Russian market grew by 13.8 per cent in 2006, reaching a value of €6.8 billion. In Asia, China grew by an estimated 10.8 per cent, and India and Indonesia by an estimated 7.1 per cent and 10.7 per cent respectively. Latin America continued to grow at a strong pace, increasing by 10.7 percent with Venezuela and Argentina leading the way.

Growing affluence

Globally, consumers' disposable income is rising. Among the developed markets, growing affluence means greater consumer sophistication and a demand for premium and value-added products. In the developing markets, demand for less penetrated sub-sectors such as baby care, hair care and sun care is growing stronger than the total cosmetics and toiletries market. The health and wellness trend, including increased interest in natural ingredients, is impacting right across the cosmetics and toiletries market, with consumers concerned about treating their bodies with care and respect.

Competitive landscape

Direct sellers such as Avon, Oriflame, Alticor and Mary Kay, account for approximately 12.9 per cent of the total market for cosmetics and toiletries, and have grown at a stronger pace than the total market in the last 10 years. Direct selling is particularly well suited to emerging markets, where it generally takes longer for cosmetics companies selling through retail to get a foothold.

In most major markets of Central and Eastern Europe, Oriflame enjoys a leading position, being either the largest or second largest cosmetics company amongst the direct sellers.

Cosmetics and direct selling

Direct selling is the process whereby independent sales consultants market and sell products directly to the consumer without a company having to make significant investment in the infrastructure normally associated with the establishment of traditional retail outlets.

Direct selling is principally based on face-to-face contacts with end-users.

In emerging markets, direct sales companies benefit from both strong market growth and an attractive earning opportunity.

In more mature markets such as Western Europe where a growing number of people are single, direct selling creates the togetherness that many are seeking and brings sales consultants additional income, personal growth and peer recognition.

Categories

The global market for cosmetics and toiletries is forecast to grow by an average of 3 per cent a year in the period 2006 – 2011, reaching €251 billion in 2011.

A strong momentum in emerging markets, greater demand for natural products and consumer segmentation will continue to drive growth in 2007. The year is expected to be one of refocusing and consolidation, where local players will have to perform better in order to survive.

Skin care is expected to be the fastest growing category, increasing by 4.4 per cent annually to reach €60 billion in 2011.

Growth is driven primarily by greater demand for facial care such as anti-ageing creams, as consumers become more aware of age-defying products. Direct sales companies will play an important part in the promotion of purposely developed and problem-specific facial care products.

Medically inspired skin care is another high-growth area about to hit the mainstream. One segment set for further growth – the spa–stands to gain from both trends in 2007, appealing to those seeking natural wellbeing and those looking for clinical treatments.

Demand for body care is also expected to increase strongly.

Firming/anti-cellulite body care products underpin this growth, as the mass media tends to put them in the spotlight and consumer awareness rises as a result. Purposely developed body care products are likely to enjoy faster growth.

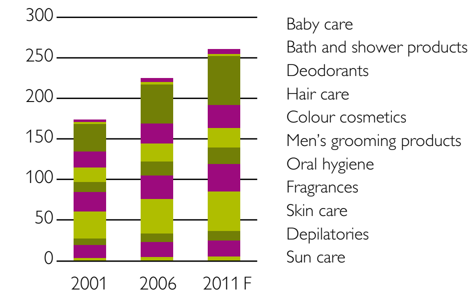
Colour cosmetics are expected to grow by 3 per cent annually between 2006 and 2011, reaching €33 billion in 2011. Growth in this category is helped by added skin care benefits that help boost unit prices. Anti-ageing and skin protection features are expected to remain the key added extras in colour cosmetics, particularly in facial make-up. Whitening is also expected to emerge in this sub-sector in the longer term, as consumers in Asia Pacific, the United States, Africa and the Middle East in particular, continue to show interest in paler complexions. Global fragrance sales are expected to grow by 2.8 per cent annually between 2006 and 2011, reaching €28 billion in 2011 and driven primarily by increased demand in developing markets, in particular Eastern Europe and Latin America.

The bath and shower products sector is forecast to grow by 1.4 per cent annually between 2006 and 2011, reaching almost €20 billion in 2011. By 2007, Asia Pacific will have overtaken Western Europe as the largest regional market for bath and shower products. The influence of direct sellers is expected to grow, as they are perfectly placed to reach even remote rural consumers in the emerging markets and provide one-to-one education on the importance of hygiene products.

The demand for men's products is growing and the category is gaining market share. Products for men are more refined than before and fewer men are afraid of making a beauty gesture.

Their needs are very close to those of women, but products need to be easy and quick to use.

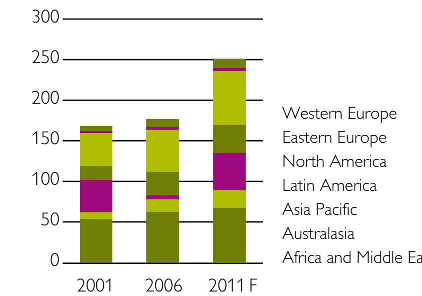
Global cosmetics & toiletries sales 2001 – 2011 F



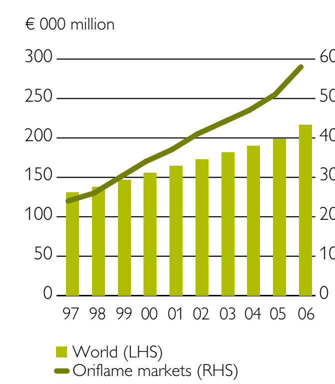
Note: Sum of sectors is greater than the market size because the four men's toiletries sub-sectors are included in men's grooming products as well as deodorants, skin care, bath and shower products, and hair care.

Source: Euromonitor IMS 2007.

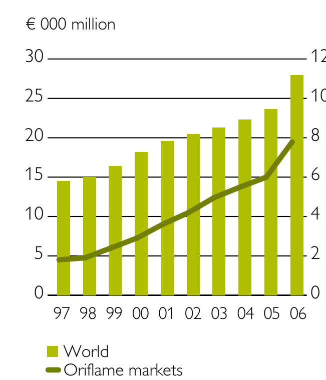
Global cosmetics & toiletries sales by region 2001 – 2011 F



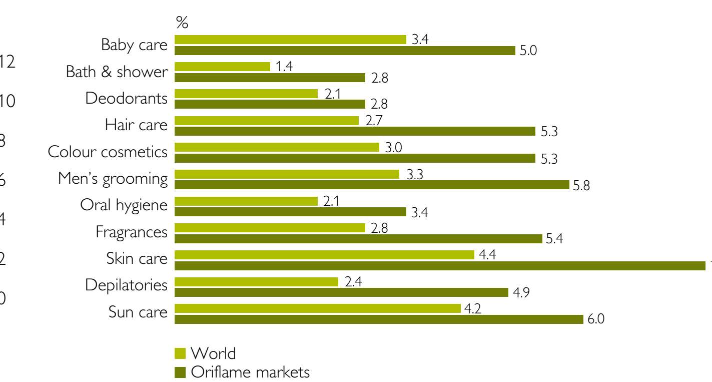
Size of market



Size of direct selling market



Forecast market growth, CAGR 2006 – 2011



People and culture

Oriflame is all about people. That is why it is essential for Oriflame to attract, develop and retain outstanding professionals. Oriflame intends to be a preferred employer for people wanting a career, whilst attaining personal and professional growth in a fun and rewarding environment

The People and culture strategy

To emphasise the importance of attracting, developing and retaining outstanding professionals, Oriflame has developed a well-functioning People and culture strategy. The strategy's initial focus is on finding and growing talent and on motivating and developing people. To reach these goals, the strategy stresses the importance of:

- attracting exceptional people who are guided every day by Oriflame's culture of common values and operating principles,
- enhancing management succession primarily from within the organisation and
- running Oriflame Academy – a forum for strategic discussion, sharing best practices and a centre of management development.

The strategy is not an occasional project – it is a part of Oriflame's culture moving forward, a culture in which the individual is expected to shoulder responsibility and execute the company's strategy.

Core values

Oriflame's strategies are always developed within the framework of its core values. Oriflame's three core values – Togetherness, Spirit and Passion – pervade the organisation and every employee's daily work, a culture in which the individual is expected to shoulder responsibility and execute the company's strategy.

Attract and grow talent

During 2006, the new global human resources (HR) director initiated several projects to attract and grow talent. Key processes within HR are: a new strategy for recruitment, succession planning to ensure highly qualified people in all positions, and performance management. There is also a commitment to work on employer branding – on how to become the preferred employer.

Motivate and develop people

To attract outstanding professionals we need to motivate and develop employees. Oriflame's management and leadership training, and an additional compensation and benefit strategy, will motivate our people to further growth. Performance management and succession planning help us to put the right person in the right place, and our reviewing and updating of key principles clarifies levels and titles and creates transparency.

Oriflame Academy

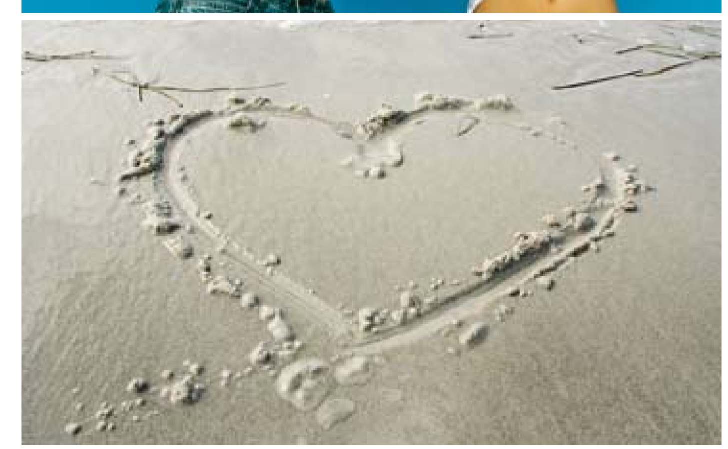
Of the multiple initiatives being launched within the People and culture strategy, the most important is the Oriflame Academy. This internal three-step development programme has been created to support and strengthen Oriflame's culture, core values and operating principles, and to increase integration, strategic understanding, leadership and management skills throughout the Group. The Academy is in its implementation phase. The intention is that all managers in the company will complete this programme, with the top 300 entering first.

The attractive workplace

Oriflame recognises the presence of different trends in our global community. To become and remain the preferred employer, a company needs to keep itself updated with expectations on the attractive workplace. Young professionals of today find confidence-inspiring leaders and ethics are important factors when choosing an employer. Soft values have a larger impact – an employer that wants to attract young professionals needs good leadership and management, strong ethical values, high moral standards and a good reputation.

Being a responsible corporate citizen has always been important for Oriflame, and is very much part of the Swedish ethos of the company. Oriflame will continue to develop its global business in a sustainable manner and follow best practices to ensure that the safety of its consumers and employees, as well as the protection of the environment, remains a top priority.

In addition to the People and culture strategy, the Oriflame Academy and other initiatives to attract, develop and retain outstanding professionals, Oriflame offers competitive packages, including fringe benefits, personal development and a fun and rewarding working environment inspired by high ethical values.



Our core values

Togetherness

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

Spirit

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

Passion

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

Brands and products

Think Oriflame, think Natural Swedish Cosmetics. Brand studies with sales consultants and consumers across the globe confirm that the slogan "Natural Swedish Cosmetics" encompasses everything that the Oriflame brand and products stand for. Building on Oriflame's uniqueness and understanding our customers' aspirations will set Oriflame apart from competition in a relevant way to secure its future growth.

The Swedish aspect of Oriflame

Oriflame is an international company of Swedish origin. The Swedish aspect of the brand is the foundation of its uniqueness and success. Four key words convey this distinctive aspect of the brand.

- Progressive: Oriflame employees have an open-minded approach to doing business and are always looking for better solutions. Science plays a key role and our scientists in the Global Development Centre in Ireland as well as strategic partners – helps us to create innovation.
- Quality: We demand and deliver quality in every single aspect of our business. This includes how we build relationships with consumers, sales consultants, employees and business partners.
- Natural: This ranges from respecting nature to using natural ingredients and even bio-mimicry (taking ideas from nature to create new technologies). Oriflame takes great pride in blending "The wisdom of nature with the best of science."
- Ethical: Oriflame employees respect people and act as good corporate citizens. An important part of our social commitment is the support we give to the World Childhood Foundation.

This is what we have in mind when we create new products to treat the customer to a joyful beauty experience with radiant results.

The beauty offer

Oriflame is inspired by the purity and power of Swedish nature. The formulations are developed using the latest scientific technology and manufactured to high standards of quality. The management closely monitors market development and trends, investing in consumer understanding to ensure that the offer remains relevant. A lean organisation consisting of marketers, packaging engineers, formulation scientists, purchasing managers and in-house creative teams work together to create new products. More than 250 new product introductions were made in 2006 alone.

The categories Skin Care, Colour Cosmetics, Fragrances, Toiletries, and Accessories offer the consumer a wide choice of more than 800 products.

The product stories

Oriflame will continue to build its strong image linked to its Swedish origins, skin care heritage and natural inspiration. For women approaching their 30ies the successful new brand "Skindividual – preserving your youth individually" is one example for this approach. The breakthrough Dermo-Adapt-Technology™ works on the skin only where needed and contains extracts from the Swedish lingonberry, more powerful than any other European cranberry. The technology behind Skindividual is filed for patent.

The focus is integrated communication. Word of mouth is the primary channel supported by catalogues, internet, leaflets, posters in service centres and for major launches, TV, print and billboards in key markets.

Highlights 2006

The combination of strong sales of existing products and launches of new ones contributed to an overall growth.

The most important category is the skin care category – a key driver for a high performance offer and is invaluable for the quality perception of the Oriflame brand.

Oriflame increased its importance in the Anti-Ageing Skin Care segment with the launch of Skindividual and continued its 2005 success with the Time Reversing range. The latter brand contains three powerful natural actives and was supported by TV and print in key markets at the beginning of 2006. The new mid-price skin care range Optimals is a complete skin care programme that combines the power of Swedish arctic plants with advanced technology for optimal skin solutions, and has boosted skin care sales.

In the Mascara segment Oriflame Colour 500% Volume continued its success of 2005. The new Visions V Freaking Amazing Mascara was also well received in the market place.

The autumn re-launch of Giordani Gold was supported in key markets by advertising to further build the brand. Giordani Gold foundation and perfume remain bestsellers.

In Fragrances, classics like Eclat, Glacier, Elvie, Divine, Volare and Midsummer Him and Her, together with new introductions are driving sales. The new male fragrance S8, representing cutting-edge style from Stockholm and made with eight special ingredients, became a top seller. The two new female fragrances inspired by Swedish tradition bolstered sales Saga – Swedish for fairy tale and the Swedish goddess of poetry; and Lucia – known to illuminate, inspire and enlighten women. Precious – Oriflame's first masstige fragrance for women – was launched for the Christmas season with success.

Adding magic to life remained a relevant theme in 2006, with Milk & Honey Gold continuing to contribute to Toiletries growth. The re-launched foot care range, in which every product contains a natural ingredient, achieved strong sales.

Oriflame participated in the growing male grooming market with the new Oriflame Men's ranges consisting of shaving related products, body care and skin care products.

Hair care sales have been pushed by the launch of Style Solutions giving customised solutions for every hairstyle and by Colour Solutions enhancing the colour and shine of hair.

High accessories growth is related to well perceived support items for cosmetics and image drivers targeting women especially jewellery and accessories for men and kids.

The Oriflame opportunity

Over 1.9 million Oriflame sales consultants in 59 countries bring Oriflame's cosmetics directly to their customers. Personal contacts, relationships and friendliness mean that millions of people purchase affordable quality cosmetics from Oriflame everyday. This is a sound foundation for the Oriflame opportunity where consultants who want to make a career can advance to leadership levels and build a better future for themselves and their families.

For 40 years Oriflame has provided an earning opportunity for hundreds of thousands of people all over the world. Oriflame is committed to providing a career opportunity with a competitive income and rewarding social activity to ensure that sales consultants consider Oriflame to be their preferred choice in direct sales.

In order to support the sales consultants in their work, Oriflame has local offices in each market to co-ordinate training on products, sales techniques and network building, as well as manage service and logistics for the sales force.

Direct selling is particularly suited to cosmetics for the simple reason that it offers a one-to-one selling opportunity, often with someone the sales consultant knows. This kind of selling environment inspires trust on the part of the consumer and belief in the product.

Direct selling has proved to be a prime marketing method especially in emerging markets that lack a Western-style retail structure. However, the benefits of direct selling are equally applicable to mature markets, in that it offers an alternative to the often crowded, stressful and impersonal beauty marketplace. The attractiveness of the social and personal growth aspects of direct selling also increases with the level of maturity in a market.

The Oriflame Success Plan

The Oriflame Success Plan rewards sales consultants for building their own successful network business. Becoming a sales consultant is easy; a modest fee is paid, there is no need to build up inventory, and a starter kit with everything necessary to begin with is provided. The Success Plan rewards sales consultants for their own sales as well as the sales of any consultant within his or her network.

Sales consultants have an incentive, therefore, to maximise network sales, enlist the help of new consultants to grow the scope of their network, and work with existing consultants to improve sales processes and overall consultant productivity.

When targeted sales levels are attained, rewards and recognition gradually increase to reflect the responsibility of leading other sales consultants. Sales consultants are also rewarded with Senior Manager and Director titles, such as Gold, Sapphire or Diamond Director, depending on their achievements.

Training programmes and seminars offer the opportunity for professional growth along the way. International conferences are an integral component of the Oriflame Success Plan and one of the key motivators for top leadership. Structured with a balance of education, motivation, and relaxation, the conferences reflect the fundamental values of togetherness, spirit and passion.

The Oriflame opportunity

In 2006, Oriflame continued the development and implementation of SARPIO (Sales and Recruitment Processes in Oriflame), which is the global platform for processes, training and communication in the company's network marketing plan. Special emphasis was placed on developing training and communication tools which support the opportunity. Oriflame achieved marked results in all regions, and will continue to implement SARPIO over the next few years. The aim is to make SARPIO the natural way to work for the majority of Leaders.

A Global Leadership Council was also established during 2006. It is a round table discussion forum made up of the top 15 independent Leaders in Oriflame and the corporate executive management, and is headed by the CEO. The aim is to bring the company even closer to the needs of its independent Leaders. There are special incentives for the Leaders to qualify for this exclusive council. It has motivated several Leaders to grow their business and is a good sounding board for new ideas.

In essence, the reason why people join Oriflame is that they are offered an opportunity to transform their lives and fulfil their dreams through three drivers communicated as:

- **Look Great** – with natural Swedish cosmetics combining the wisdom of nature with the best of science.
- **Make Money** – with the opportunity to make money today and fulfil your dreams tomorrow.
- **Have Fun** – meet new people and make new friends, be recognised for your achievements as you grow professionally and personally by participating in meetings, training sessions and events.

Double Diamond Conference
Livingston Falls – Zambia, January 2006

Diamond Conference
Sun City – South Africa, January 2006

Gold Conference Asia
Shanghai – China, May 2006

Global Leadership Council (Top 15)
Stockholm – Sweden, June 2006

Gold Conference CEM, CIS & Baltics
Barcelona – Spain, September 2006

Gold Conference LA
Cartagena de Indias – Colombia, November 2006

All three drivers are important and together make up the Oriflame Opportunity. With Oriflame it is always the individual who chooses how much to participate in each part. Oriflame fundamentally believes that the company has a unique positioning in the industry through the combination of a strong product portfolio and catalogue support, coupled with a dynamic earning opportunity. Oriflame thereby offers, better than anyone else, the prospect for a new recruit to make money the same day they join, while simultaneously building a sales network organisation and embarking on a journey to fulfil their dreams.

Oriflame Online

Oriflame's Internet strategy has always been focused on making life easier for the consultants. The Internet solution provides a fully integrated ordering facility, real-time performance reports and the possibility for sales consultants to set up personal web sites. The personal web sites enable consultants to service their consumers and take orders on personalised web pages that are easy to manage, always updated with the latest catalogue and product offerings and which follow the Oriflame corporate design. In December 2006, Oriflame offered its Internet ordering service in 32 markets. The number of orders in 2006 grew by 113 per cent compared to the previous year.

A number of initiatives, such as the Success Plan Simulator, where consultants can simulate earnings from building a business, and the Virtual Beauty Guide, where different make up looks can be tested on models online, were introduced. Oriflame continues to see opportunities to increase service while reducing costs, as more and more consultants choose this convenient way of managing their Oriflame activities.

Sales consultant compensation is divided into three parts

- **Immediate profit** – Sales consultants buy products from Oriflame at a discount on the catalogue price and earn a 30 per cent mark-up when selling them on to their consumers.
- **Volume discounts** – Sales consultants can earn an additional 3–21 per cent on their personal sales and the sales of those consultants they have recruited to sell Oriflame products.
- **Cash awards and bonuses** – Sales consultants are also rewarded for separate achievement related to leadership development, training and motivation of the people they have recruited. All rewards are based on achieving targeted sales volumes of the Oriflame products.

The Oriflame catalogue

The Oriflame catalogue is a vital component of the Oriflame business opportunity. Not only does it showcase the beautiful Oriflame product range, it also provides one of the most powerful and effective direct selling tools in the industry.

Instantly recognisable in 35 languages around the world, each catalogue is an aspirational display of the Oriflame product range, planned and designed with a balance of appealing new offers and promotions and exciting new product launches.

And with more than 94 million catalogues distributed worldwide in 2006, the Oriflame catalogue is an extremely effective sales and brand-building tool.

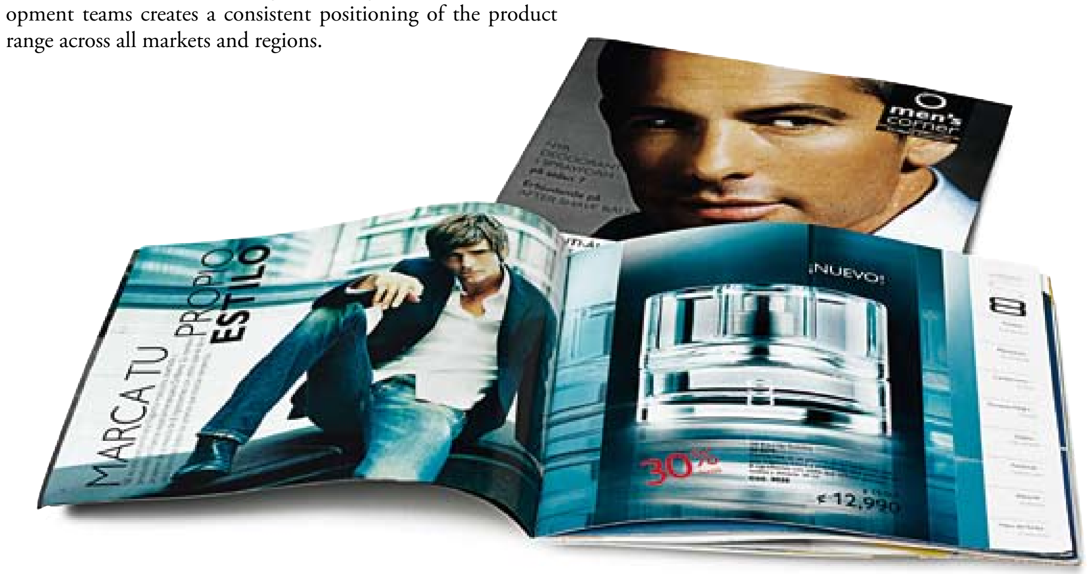
A new catalogue is distributed every 3 to 4 weeks, which is between 12 and 18 editions a year, depending on local market conditions. Each new catalogue, whilst remaining true to Oriflame's brand values and identity, has a tangible point of difference to its predecessors. This creates a compelling reason for existing and new customers to look and purchase from each and every catalogue edition.

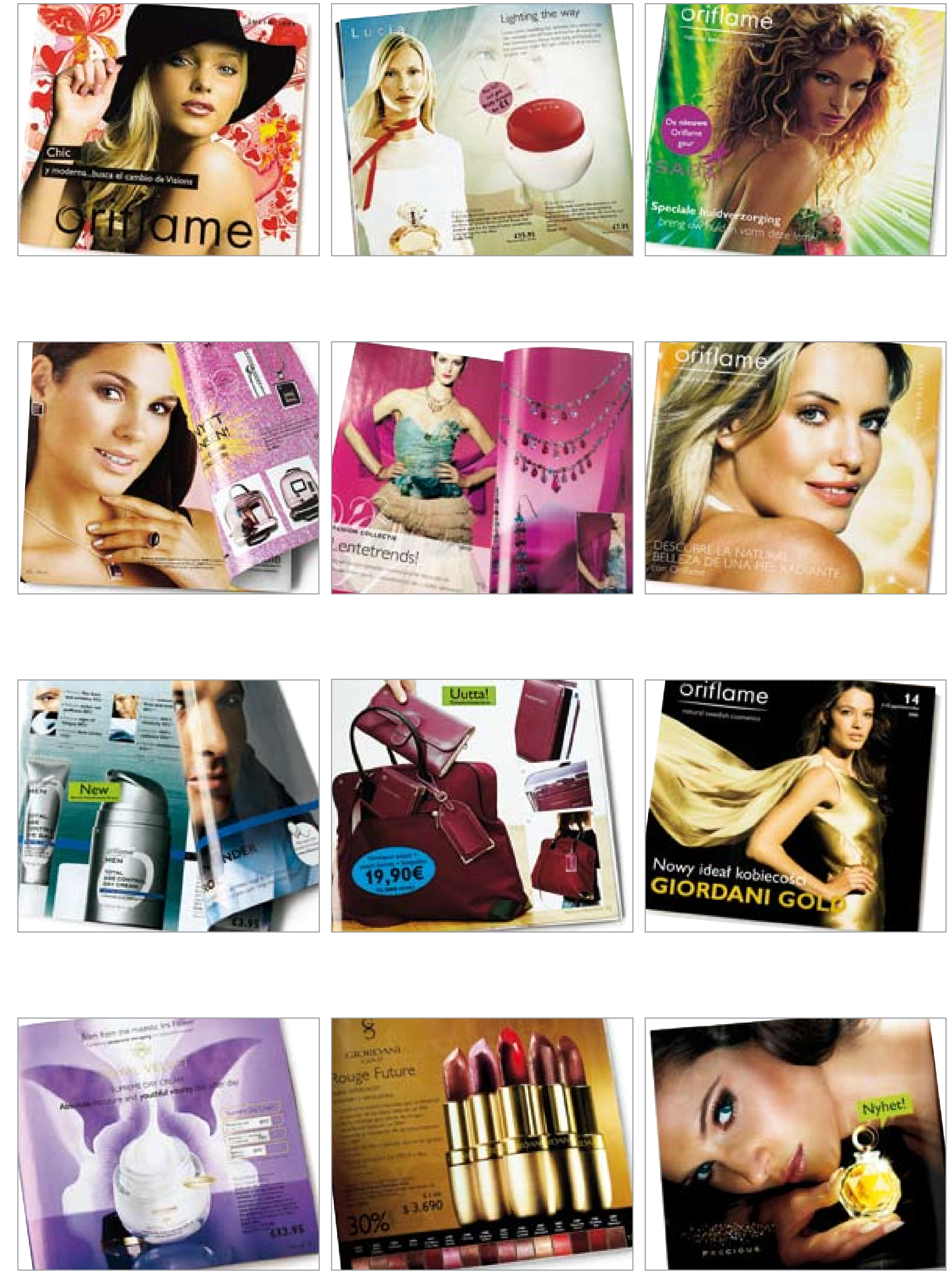
Oriflame has specialist regional catalogue planning teams to ensure that each catalogue edition maximises local market sales potential by being responsive to its requirements. Careful co-ordination between the regions and global product development teams creates a consistent positioning of the product range across all markets and regions.

All creative work is performed at Oriflame's centralised Catalogue Development Centre in Sweden. Art directors and layout specialists work in dedicated teams to produce brand consistent product launches and regional adaptations that make up the completed catalogue. An in-house production team manages and controls the whole process through to final printing and market distribution.

The finished result is the fabulous Oriflame catalogue, each edition a new and exciting store that provides motivation and confidence for sales consultants to distribute and sell, and a pleasurable, convenient shopping experience for consumers.

- More than 94 million copies distributed in 2006
- 5 regional versions in 35 languages
- A new edition every 3 to 4 weeks
- A unique shopping experience for consumers
- A powerful sales tool for sales consultants





Environmental and social responsibility

Oriflame's ethical and environmental principles cover everything from materials to factory conditions. Respect for people and nature reaches into every area of the company.

A priority for Oriflame

Being a responsible corporate citizen has always been important for Oriflame Cosmetics and is very much part of the Swedish ethos of the company.

Oriflame's consumers expect high-quality performance products that are safe to use and do not harm the environment.

During 2006, Oriflame focused even more closely on developing manufacturing systems and processes that optimise consumer safety and minimise environmental impact.

Respecting nature

Ever since Oriflame entered the cosmetics business 40 years ago, nature has been a major influence and an integral part of the brand image. When formulating new products, Oriflame seeks inspiration from nature in the selection of raw materials and does not use ingredients that are harmful to the environment. For example, the cleansing agents used in shampoos and shower gels are approved by the Swedish Society for Nature Conservation and are in line with the Good Environmental Choice (Bra Miljöval) standard.

Oriflame is aware of the many threats to the delicate ecosystems from increased industrialisation and changing lifestyles. Oriflame continuously monitors scientific reports on environmental issues to ensure that action can be taken to replace suspect ingredients or packaging materials.

Environmental responsibility

In general, cosmetics manufacturing is a clean process. Unlike many chemical synthesis processes it does not generate high volumes of toxic emissions or hazardous effluents.

Oriflame strives to manufacture its products with minimum impact on the environment as outlined in the Oriflame Code of Good Environmental Practice. The company currently operates four cosmetic manufacturing plants in Poland, Sweden, India and China, with a fifth in Russia expected to commence production in the latter part of 2007.

Because regulatory requirements vary in different parts of the world, Oriflame has adapted its policies to comply with the ever-changing and increasingly demanding environmental legislation at local and international levels.

Oriflame Products Poland (OPP) is the main manufacturing plant, producing more than 133 million units of skin care and colour products in 2006. Environmental data is continuously monitored at Oriflame factories in order to find opportunities for improvement.

The data below shows that although output from OPP increased by more than 16 per cent between 2005 and 2006, the incremental growth in energy consumption is lower than that figure. Higher recycling rates of waste plastic, glass and paper packaging were also achieved.

Oriflame Products Poland environmental data

	Production		Resources			Liquid waste	Packaging – recycled		
	Units	Bulk	Electrical energy	Gas	Water	Effluent	Packaging – plastic	Packaging – glass	Paper/ cartons
Year	pcs	t	MWh	Nm^3	m^3	m^3	t	t	t
2003	98,000,000	9,400	4,200	722,500	82,500	74,300	65	0	320
2004	92,000,000	8,670	3,600	629,600	80,700	72,600	50	2	310
2005	115,000,000	12,000	4,200	639,900	79,600	71,600	74	0	380
2006	133,500,000	13,440	4,695	618,400	94,000	85,000	103	0.4	540

Oriflame's Swedish plant (OPS) near Stockholm is located in a green area. It is an integral part of the local community of Ekerö and works very closely with the local authorities to minimise its impact on the environment. During 2006, the company investigated its treatment of wastewater to ensure that the process fully complies with the stringent local environmental standards.

For years, Oriflame has used only paper from sustainably managed forests for the vast majority of its catalogues, and ensures that the paper is treated in an environmentally friendly bleaching process. The company strives to minimise packaging and avoid the use of materials that are harmful to the environment.

During production and transportation, Oriflame endeavours to save energy and minimise its impact on the environment. In 2006, significant energy savings were achieved by the relocation of distribution hubs as part of a major re-engineering of the Oriflame supply chain.

Commitment to society and nature is part of the Oriflame heritage

Oriflame was one of the first companies to utilise plant extracts in skin care products and to use ingredients from renewable plant sources. The company long-ago banned the use of cosmetic ingredients that are derived from dead animals or sourced by causing harm or suffering to animals. Oriflame took a firm stance against testing cosmetics on animals long before it became fashionable, which in fact was many years before the testing ban was included in EU regulations.

Supplier code of ethical practice

All suppliers are committed to operating under Oriflame's Code of Ethical Practice and other associated policies cover such issues as animal testing, child labour, consumer protection and the environment.

Social responsibility

Oriflame contributes to the communities in which it operates, providing employment and business opportunities as well as supporting charities on a local, regional and global level. The company remains a donor providing support to those who need it most. Often these are the children of the world, such as those in the "Livslust" programme in Latvia – a special school for orphans that Oriflame has been supporting for many years.

The various charity activities Oriflame is involved in include funding, product donations, and the time and energy of employees spent in numerous social causes. The company is continuously developing its social compliance programme with the goal of becoming an even better corporate citizen.

World Childhood Foundation

Global presence calls for global responsibility. Every child should have the right to a childhood – to grow up in security, to develop socially and intellectually, to play happily and to develop a curiosity about life. Many children, however, are deprived of these rights. That is why Oriflame co-founded the World Childhood Foundation in 1999, which is under the patronage of HM Queen Silvia of Sweden.

Oriflame supports the World Childhood Foundation in many ways, sponsoring a variety of children's projects in markets where the company is active. For more information visit www.childhood.org

The future

Oriflame will continue to develop its global business in a sustainable manner and follow best practices to ensure that the safety of its consumers and workers, as well as the protection of the environment, remains a top priority for the company.

Further information on Oriflame's environmental performance and policies is available at www.oriflame.com

World-class service

Global Supply's main task is to support the sales companies in fulfilling customer demand for Oriflame products throughout the world.

This responsibility encompasses processes that ensure that the products are both innovative and perform to the highest standards. The management of demanding time schedules for development and production is critical to ensuring that products are distributed to the sales companies in sufficient volumes to meet the quantities required for new launches, as well as subsequent demand in each catalogue cycle. Global Supply's processes ensure that maintaining product quality is foremost at all stages, from R&D to final distribution to the customer.

Global Supply is required to develop attractive products that can be effectively marketed through Oriflame's catalogues and network of sales consultants. As the demand for individual products varies considerably from market to market, Oriflame needs to be able to quickly respond to increased sales and react speedily with efficient merchandising of surplus quantities. Such fluctuations across global markets impact heavily on operations and require immediate response from our sourcing, distribution and sales functions. Consequently, priority is given to developing and implementing efficient information processing systems to ensure that the company has the ability to react to change in supply and demand.

During 2006, Oriflame launched a new Group-wide project to remodel its Product Fulfilment processes and reassess its operating structures and support systems. The project is aimed primarily at ensuring continuous improvements in the service given to the sales consultants on the front line, and at ensuring supply of product when and where it may be required by the consumer.

Research and development

Oriflame's ability to sustain high levels of sales growth in the future will depend, in large part, on the work being carried out today by the company's dedicated R&D team. The essence of the team's success is not only the development of innovative, natural products for inclusion in the Oriflame range, but also the speed and efficiency with which they bring those products to market through the Oriflame catalogue.

In line with Oriflame's commitment to research and development, further resources were invested during the year in R&D projects, especially within the important Skin Care category. This resulted in a number of new innovative products that were launched during the year, with the company filing patent applications on two new technologies.

To capitalise on the new products and technologies, Oriflame is strengthening its claim support area to be able to efficiently communicate the achieved benefits.

Another focus area is the further development of the packaging skills in order to offer packaging that appeals to the consumer, protects the product and fulfils requirements for efficient production and distribution.

The consistency of performance in relation to demanding timelines for development and introduction is essential to ensure that Oriflame products are at the forefront of an ever-changing cosmetics industry.

Quality assurance

Oriflame's quality assurance team works with the company's own manufacturing operations and subcontracted suppliers to achieve consistent adherence to the ethical, safety and quality standards laid down by the Group. Oriflame maintains a policy of global compliance for all its products to ensure conformity with the highest market standards.

During 2006, additional resources were made available in order to further embed a quality aspect into all processes, from product conception to product delivery. These are co-ordinated through a Group Quality System.

Sourcing

Oriflame products are manufactured both in-house and by various subcontractors who have expertise in specific product sectors. The company's strategy is to develop capabilities in product sectors that have sufficient volumes to achieve scale economies which justify investment in the technology and infrastructure required to support in-house manufacture.

Oriflame's sourcing is managed from its Group Purchasing function. The function controls both the sourcing from subcontractors as well as the supply from the Group's own manufacturing units. In this respect the function works closely with product development, quality assurance and production planning.

In addition to day-to-day purchasing, the function also concentrates on developing the Group's supplier base from a strategic perspective. The target is to ensure a base of flexible, efficient and quality-oriented suppliers. An important part of this work is the introduction of a supplier rating system that enables both Oriflame and the supplier to identify and follow up on key parameters.

Manufacturing

Oriflame has manufacturing units in Poland, Sweden, India and China. The factories focus primarily on the production of Skin Care, Toiletries and Fragrances, areas in which the company has sufficient volumes to achieve economies of scale.

Earlier in the year the company established a Group Manufacturing division within Global Supply which will focus on developing the existing manufacturing and engineering skills within the Group and exploiting them to obtain greater efficiency and effectiveness. During the year, we have seen the first benefits of the new organisation through further integration of the various units.

The production units in Poland, India and Sweden continued to operate well and produced Oriflame products at record levels.

The production unit in China, the principal task of which is to support sales operations in China, started operations in 2006. Before the start of sales activities on November 1, the unit produced the initial launch volumes and is now ensuring the continued supply, supporting the sales strategy for this new market.

The development of the Colour Cosmetics Centre in Moscow continues in co-operation with our partner, the Weckerle Group. Lipstick production is expected to commence in the latter part of the year.

Supply Chain

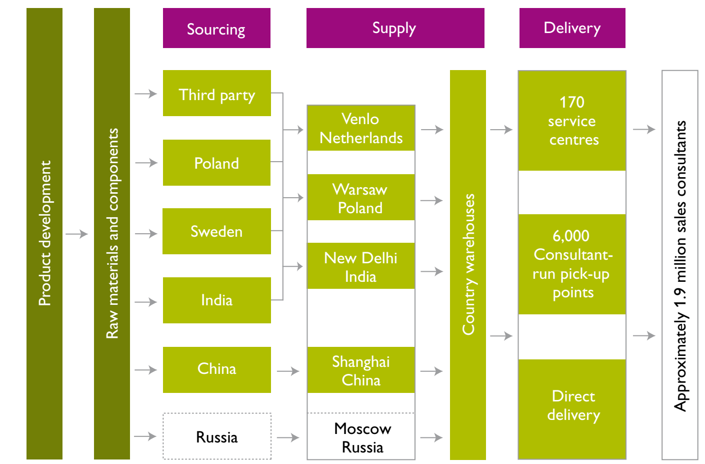
Supply Chain management activities are focused on ensuring product availability in Oriflame markets. The function consistently supplied the sales companies with products throughout the year, thus supporting their ability to increase sales. This resulted in a record number of units being handled by the Supply Chain in 2006.

In order to increase responsiveness through reduced lead times, Oriflame moved in 2006 a large part of its inventory from its hub in Venlo, Netherlands to its hub in Warsaw, Poland. The Warsaw hub was expanded in order to support further volumes. Almost 60 per cent of the Group's hub stock is now held in Warsaw, which is closer to Oriflame's major markets and gives a substantial annual cost saving.

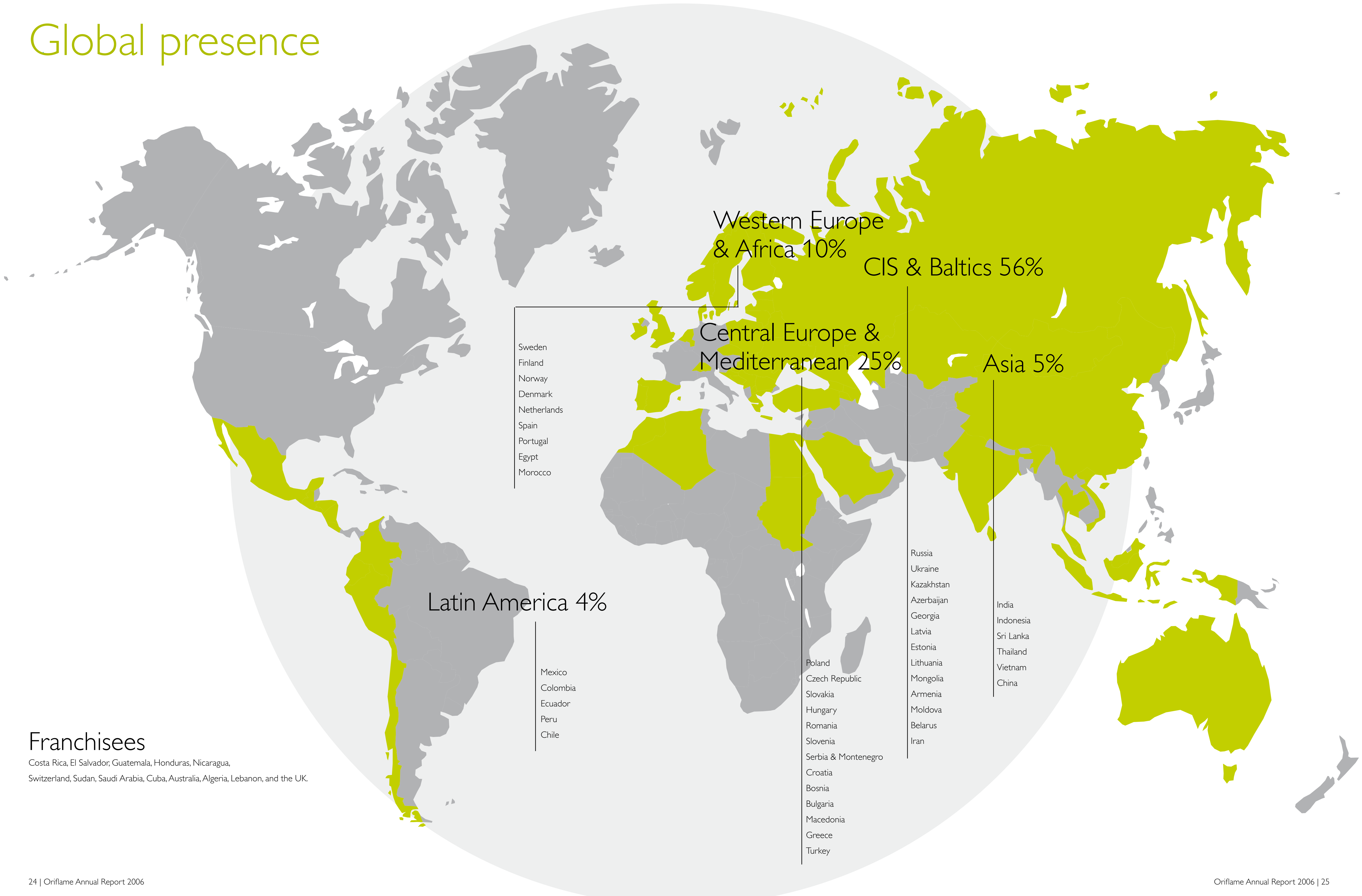
The CIS Supply Centre in Moscow is in the process of being occupied. The Supply Centre is being brought into use on a gradual basis to eliminate the risk of supply disruption.

The Product Fulfilment project, which is Oriflame's review of its entire supply chain, is proceeding according to plan. The project encompasses all the company's supply processes, including sales forecasting, production planning, sourcing and distribution. A thorough review of physical locations, processes and supporting IT tools has resulted in a number of recommendations that will be gradually implemented in accordance with the project plan. Through increased focus on supply chain integration and flexibility, Oriflame is aiming to increase service levels while optimising Group inventory levels. The new processes will also enable Oriflame to efficiently handle increased volumes and a greater number of product introductions.

Global Supply



Global presence



Franchisees

Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Switzerland, Sudan, Saudi Arabia, Cuba, Australia, Algeria, Lebanon, and the UK.

Regions

Oriflame distributes its products through a network of over 1.9 million independent sales consultants in 59 countries. Oriflame has a local presence in the form of wholly owned sales companies in 46 markets. In 13 countries, Oriflame acts through franchise arrangements with local distributors rather than through subsidiaries.

Oriflame is a decentralised organisation with local sales companies taking full responsibility for managing their sales consultants and delivering products. The sales companies are organised into three main areas: Sales & Marketing, Operations, and Finance & Administration. All sales companies operate with their own warehouse facilities and are headed by a managing director. The sales companies are supported by global service functions: Marketing, Sales Support, Global Supply, Business Development, Finance and IT.

Global sales force

The total number of sales consultants in 2006 increased by 15 per cent to 1,976,500 consultants, up from 1,723,200 a year ago. The average size of the sales force during the year increased by 13 per cent to 1,807,700 sales consultants (1,597,200).

CIS & Baltics	2006	2005	Change, %
Sales, €m	496.5	382.9	30
Operating profit, €m	99.3	72.7	36
Average sales force	932,600	780,400	20

Central Europe & Mediterranean	2006	2005	Change, %
Sales, €m	223.8	209.9	7
Operating profit, €m	45.4	43.2	5
Average sales force	512,900	522,500	(2)

Western Europe & Africa	2006	2005	Change, %
Sales, €m	90.3	84.4	7
Operating profit, €m	11.3	10.7	6
Average sales force	125,100	118,000	6

Latin America	2006	2005	Change, %
Sales, €m	40.0	33.3	20
Operating profit, €m	4.4	2.1	116
Average sales force	69,200	55,500	25

Asia	2006	2005	Change, %
Sales, €m	43.7	30.6	43
Operating profit, €m	–	(1.1)	n.m.
Average sales force	167,900	120,600	39

CIS & Baltics

Sales increased by 30 per cent to €496.5 million (382.9). Local currency sales increased by 25 per cent as a result of a 20 per cent increase in the average size of the sales force and a 5 per cent productivity increase. All markets performed well, particularly Belarus, but also Ukraine and Mongolia.

The increase in productivity was to a large degree the result of further improvements to Oriflame's catalogue and an increase in the number of customer offers. In addition, productivity gains were supported by the introduction of additional catalogues in the first and second quarters of the year. Operating margins increased to 20.0 per cent (19.0) resulting in an operating profit of €99.3 million (72.7). Operating margins were higher partly as a result of positive currency movements.

Central Europe & Mediterranean

Sales increased by 7 per cent to €223.8 million (209.9) with strong growth in Romania, Bulgaria and Bosnia-Hercegovina.

Local currency sales increased by 5 per cent as a result of a 7 per cent productivity improvement partly offset by a 2 per cent decrease in the size of the sales force. Productivity gains were supported by an increase in the number of catalogues issued in the region.

The operating margin was 20.3 per cent (20.6), resulting in an operating profit of €45.4 million (43.2).

Western Europe & Africa

Local currency sales and euro sales increased by 7 per cent to €90.3 million (84.4) with strong growth particularly in Portugal, the largest market in the region. Sales growth was driven by a 6 per cent increase in the size of the sales force and a 1 per cent increase in productivity.

Operating margins amounted to 12.5 per cent (12.7), resulting in an operating profit of €11.3 million (10.7).

Latin America

Local currency sales and euro sales increased by 20 per cent to €40.0 million (33.3). Sales growth was driven by a 25 per cent increase in the size of the sales force, partly offset by a 3 per cent productivity decrease. Four out of five markets showed strong sales growth.

Operating margins improved to 11.1 per cent (6.2) as a result of scale effects in the business. Operating profit amounted to €4.4 million (2.1).

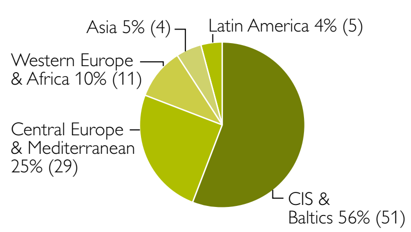
Asia

Sales in Asia increased by 43 per cent to €43.7 million (30.6). Local currency sales increased by 41 per cent thanks to a 39 per cent increase in the size of the sales force and a 2 per cent increase in productivity.

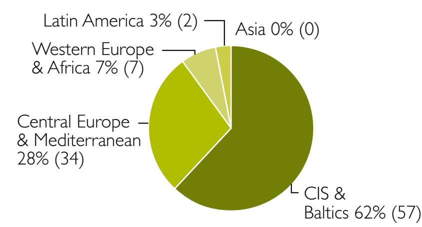
Sales development was strong in all countries in the region. The strong sales trend is to a high degree attributed to Oriflame's focus on sales and recruitment processes which has led to many new leaders in the region taking more responsibility for the training and recruitment of the sales force. Oriflame commenced sales activities in China in November 2006.

Key figures

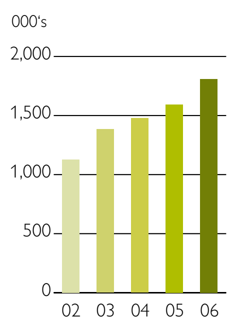
Regional sales 2006



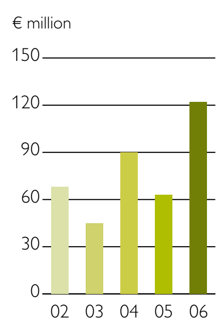
Regional operating profit 2006



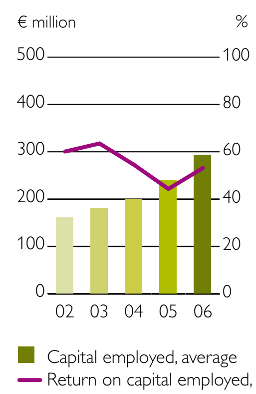
Average sales force



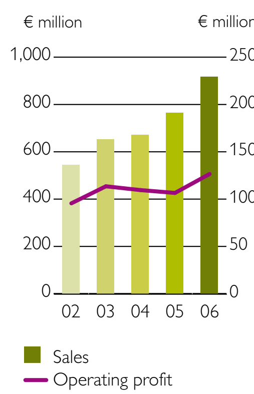
Cash flow from operating activities



Capital employed



Sales and operating profit



Five-year record

€'000 (unless otherwise stated)	**2006**	**2005***	**2004***	**2003***	**2002**
Sales	917,945	765,690	670,692	652,136	544,127
Gross profit	634,662	522,729	463,627	446,564	390,843
Gross margin, %	69.1	68.3	69.1	68.5	71.8
EBITDA	144,619	120,328	120,446	124,392	105,838
Operating profit	127,055	106,746	109,500	114,026	96,157
Operating margin, %	13.8	13.9	16.3	17.5	17.7
Profit before tax	108,328	101,684	99,566	85,616	79,502
Net profit	93,499	90,482	87,844	72,532	74,371
Cash generated from operations	149,591	83,001	117,960	69,670	96,799
Cash flow from operating activities	121,582	63,440	90,454	45,364	67,807
Average operating capital	237,318	201,057	161,561	136,188	116,551
Return on operating capital, %	43.4	53.2	67.8	83.7	82.5
Average capital employed	293,771	240,032	201,238	179,555	160,958
Return on capital employed, %	53.3	44.7	54.7	63.7	60.3
Net interest bearing debt	193,491	73,492	57,527	189,760	72,113
Interest cover	9.3	11.2	9.2	6.3	8.8
Earnings per share, basic, €	1.62	1.52	1.51	1.35	1.50
Earnings per share, diluted, €	1.61	1.52	1.50	1.29	1.37
Average number of employees	5,610	4,961	4,527	4,182	3,442

* Excluding gain on disposal and before exceptional items such as stock exchange listing and refinancing expenses and restructuring charges.

Quarterly figures

	2004				2005				2006			
Sales, €million	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
CIS & Baltics	93.3	69.9	64.7	103.1	93.9	73.4	81.7	133.9	132.0	109.6	95.7	159.1
Central Europe & Med.	43.9	45.3	39.4	51.6	49.4	51.7	47.7	61.0	55.4	55.8	46.3	66.4
Western Europe & Africa	19.2	20.6	19.3	23.2	18.8	21.5	19.4	24.8	22.1	23.3	19.6	25.4
Latin America	6.1	6.6	6.6	6.9	6.0	8.0	8.7	10.5	9.2	10.2	10.1	10.5
Asia	7.4	7.9	7.7	7.5	7.2	7.8	7.2	8.4	9.1	10.4	11.7	12.4
Other	5.3	5.7	4.5	5.1	6.2	6.2	6.2	6.1	6.2	6.5	5.4	5.6
Total	**175.1**	**155.9**	**142.4**	**197.3**	**181.6**	**168.5**	**170.9**	**244.7**	**234.0**	**215.7**	**188.8**	**279.5**

Operating profit, €million	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
CIS & Baltics	24.8	15.9	11.9	23.5	18.5	8.9	15.0	30.3	28.1	23.8	12.3	34.9
Central Europe & Med.	9.2	9.6	8.3	11.5	10.0	10.4	8.7	14.0	11.3	11.8	7.9	14.4
Western Europe & Africa	2.2	1.7	1.9	2.9	2.3	3.1	2.1	3.2	2.6	3.5	1.9	3.2
Latin America	0.0	0.3	0.2	0.3	0.1	0.5	0.8	0.6	0.8	1.6	1.3	0.7
Asia	0.5	0.0	0.4	0.3	(0.2)	(0.1)	(0.3)	(0.4)	(0.2)	(0.1)	0.2	0.2
Other	(4.5)	(1.2)	(4.2)	(6.0)	(3.5)	(3.0)	(5.6)	(8.8)	(3.6)	(9.4)	(9.8)	(10.5)
Total	**32.2**	**26.5**	**18.4**	**32.5**	**27.2**	**19.7**	**20.8**	**39.1**	**39.0**	**31.3**	**13.8**	**43.0**

Average sales force, '000	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
CIS & Baltics	813.6	729.5	595.5	731.8	799.6	749.5	701.3	816.5	923.8	918.9	876.6	994.2
Central Europe & Med.	467.6	491.1	438.6	496.6	523.2	548.8	507.0	518.2	531.6	531.6	488.5	495.8
Western Europe & Africa	119.7	127.3	119.7	119.6	120.3	127.4	112.8	112.3	120.6	126.0	126.1	127.6
Latin America	48.0	49.5	50.2	52.3	49.5	52.0	57.6	62.2	63.1	66.9	71.8	74.7
Asia	112.3	115.0	115.1	116.2	115.9	121.1	121.0	125.0	135.5	160.9	176.4	203.9
Total	**1,561.2**	**1,512.4**	**1,319.0**	**1,516.5**	**1,608.5**	**1,599.0**	**1,499.8**	**1,634.1**	**1,775.0**	**1,804.0**	**1,739.4**	**1,896.2**

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

Definitions

EBITDA
Operating profit before financial items, income/loss from associates, taxes, depreciation and amortisation.

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 minus cash and cash equivalents.

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

The Oriflame share

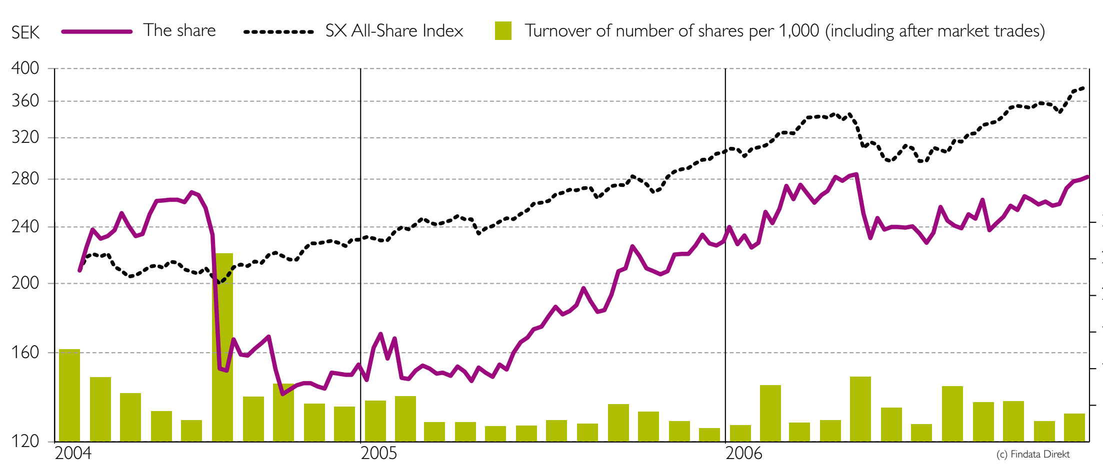
Oriflame Cosmetics was introduced on the Stockholm Stock Exchange on 24 March 2004 through an initial public offering of Swedish Depositary Receipts (SDRs). On 31 December 2006, the number of shareholders and SDR holders was 3,942. Each SDR represents one share. The last price paid on 29 December 2006 was SEK 282 giving Oriflame a total market capitalisation of SEK 15.7 billion. During the year an average of 227,041 shares were traded per day. A total of 57.7 million Oriflame shares were traded on the Stockholm Stock Exchange at a value of SEK 14,623 million.

Oriflame Cosmetics top 10 shareholders as at 31 December 2006*

	Shares	Capital and votes, %
Stichting af Jochnick Foundation	6,016,001	10.8
JP Morgan Chase Bank	5,502,624	9.9
Jonas af Jochnick and family	4,622,823	8.3
SSB CL Omnibus	4,202,185	7.5
Robert af Jochnick and family	3,761,465	6.8
Robur	3,403,531	6.1
JP Morgan Bank	1,181,573	2.1
Mellon Omnibus 15%	1,096,266	2.0
Members of Oriflame senior management	1,001,903	1.8
Others	24,881,551	44.7
Total	**55,669,886**	**100.0**

Source: VPC and share register
* Oriflame may be unaware as to the identity of the beneficial owners of the shares as they may be held through nominees.

Share price



Ownership structure on 31 December 2006

Shareholding	Number of shareholders	%	Number of shares	%
1– 1,000	3,262	82.7	618,641	1.1
1,001– 10,000	421	10.7	1,495,690	2.7
10,001– 50,000	145	3.7	3,281,846	5.9
50,001– 500,000	100	2.5	16,195,681	29.1
500,001– 1,000,000	6	0.2	4,291,560	7.7
1,000,001– upwards	8	0.2	29,786,468	53.5
Total	**3,942**	**100.0**	**55,669,886**	**100.0**

Source: VPC 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 per cent of the Company's annual profit after tax as dividends. For 2006, the Board of Directors proposes a dividend of €1.01 (€0.90) per share. The proposed record date for dividends is 21 May 2007 and payment of cash dividend will occur through VPC on 29 May 2007. From 1 January 2007, Oriflame will withhold 15 per cent tax on dividends. Further information is available on www.oriflame.com.

History of share capital

The table below presents the changes in the Company's share capital since 2000. 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
2002[1]	New issue	1,005,000	407	70,699,463	28,285
2002	Reduction	(16,749,894)	–	53,949,569	28,285
2002	Increase in par value	–	41,087	53,949,569	69,372
2003[2]	New issue	2,249,060	2,892	56,198,629	72,264
2003[3]	New issue	187,500	241	56,386,129	72,505
2003[4]	Reduction	(2,650,316)	–	53,735,813	72,505
2003	Decrease in par value	–	(5,335)	53,735,813	67,170
2003[5]	New issue	42,500	53	53,770,313	67,223
2004[6]	New issue	30,000	37	53,808,313	67,260
2004[7]	New issue	2,433,116	3,041	56,241,429	70,302
2004[8]	New issue	3,100,000	3,875	59,341,429	74,177
2005[9]	New issue	141,761	177	59,483,190	74,354
2006[10]	Cancellation of redeemed shares	(3,813,304)	(4,766)	55,669,886	69,588

(1) Reflects the issue of shares in connection with a reorganisation of the Group resulting in a restatement of the accounting par value of the Company's shares. The shares were issued on a non-cash basis at an equivalent price of €304.57 per share and used for an internal investment in one of the Company's subsidiaries.

(2) Issued at a price of €0.37 per share pursuant to the exercise of warrants granted as a part of the 1999 delisting to the Company's former mezzanine debt providers.

(3) Issued at a price of €1.83 per share pursuant to the exercise of employee share option plans.

(4) Reflects the cancellation of treasury shares.

(5) Issued pursuant to the exercise of employee share option plans. Of the 42,500 shares, 42,000 were issued at a price of €0.74 and 500 were issued at a price of €0.68.

(6) Issued pursuant to the exercise of employee share option plans. Of the 30,000 shares, 13,000 were issued at a price of €1.92, 11,000 were issued at a price of €1.55 and 6,000 were issued at a price of €0.68.

(7) Issued pursuant to the exercise of achievement and other options in connection with the offering on the Stockholm Stock Exchange. Of the 2,433,116 shares, 2,094,736 shares were issued at a price of €0.68, 9,750 shares were issued at €1.19, 64,320 shares were issued at €1.55, 64,090 shares were issued at €1.92, 100,000 shares were issued at €2.00, 3,000 shares were issued at €2.65, 34,220 shares were issued at €3.38, 23,000 shares were issued at €4.11 and 40,000 shares were issued at €11.23.

(8) Reflecting the new issue of 3,100,000 shares at the offering price of SEK 190 per SDR.

(9) Reflecting the new issue of shares in the share incentive programme for management.

(10) On 30 October 2006 the Company cancelled 3,813,304 shares, which were redeemed during the summer of 2006.

Management report

Sales
Sales increased by 18 per cent in local currencies and 20 per cent in euros. Sales growth in local currencies was driven by a 13 per cent increase in the average size of the sales force (8 per cent in 2005) and a 4 per cent productivity improvement (7 per cent in 2005).

The increase in sales was due mainly to a sales increase of 25 per cent in CIS & Baltics (28 per cent in euros) as a result of strong growth of the sales consultant base in Ukraine, Georgia and Kazakhstan as well as improved productivity in the region. Sales in the Central Europe & Mediterranean region increased by 5 per cent (7 per cent in euros), while sales in Western Europe increased by 7 per cent (7 per cent in euros). The sales increase in the Asia region was up 41 per cent in local currencies (43 per cent in euros) mainly due to sales increases in India, Indonesia and Vietnam. Sales activities commenced in China in November 2006. Latin America had a sales growth of 20 per cent in both local currencies and euros.

Results
Gross margins improved to 69.1 per cent (68.3) as a result of productivity gains and price adjustments. The operating margin amounted to 13.8 per cent (13.9) resulting in an operating profit of €127.1 million (€106.7). In 2005 a loss on disposal of €4.2 million related to the UK operation was provided for in the fourth quarter. Net profit increased by 3 per cent to €93.5 million (€86.3) and earnings per share after dilution amounted to €1.61 (€1.52 – adjusted for loss on disposal of UK operations).

Cash flow and capital expenditure
Cash flow from operating activities amounted to €121.6 million (€63.4) for the full year. Operating cash flow increased partly as a result of €24.3 million in higher EBITDA. In addition, inventories in 2006 decreased by €2.8 million while in 2005, the inventory build-up amounted to €–32.0 million. This was partly offset by €6.5 million in higher interest and charges paid and €1.9 million in higher taxes paid.

Cash flow from investing activities for the twelve month period amounted to €–39.5million (€–39.5). Capital expenditure was high mainly due to investments in the CIS Supply Centre.

Financing
The payment of the dividend (€53.5 million) and redemption payments (€153.0 million) and capital expenditure (€39.5 million) led to an increase in net interest bearing debt to €193.5 million compared to €73.5 million at year end 2005. Net debt/EBITDA amounted to 1.34 (0.61). Interest cover amounted to 7.9 (11.2) in the twelve-month period.

Dividend
Oriflame's Board of Directors will propose to the AGM a dividend of €1.01 per share, or 60 per cent of net profit and €56.2 million in total. The dividend will be paid after the AGM in May 2007.

Human resources
During 2005 the average number of employees increased by 13 per cent to 5,610 (4,961). The increase was mainly in the warehouse operations and in customer service. Most of the increase was in CIS & Baltics.

Board of Directors and management
The Board of Directors consists of 7 non-executive directors and the CEO. Directors are elected 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 of Directors is entitled to elect a replacing director to fill the vacancy for the period until the next annual general meeting of the Company.

The Board of Directors met eleven times during the year under review. The topics covered at meetings include the financial outlook of the Company, a review of current investments and approval of future investments, risk scenarios and the long-term plans of the Group.

For more information about the Board of Directors and management, see the section Corporate governance report.

Oriflame's Chief Financial Officer, Kevin Kenny has decided to leave the Company in August 2007 after 27 years with the Company. During the next six months, Kevin will hand over his responsibilities to Gabriel Bennet, currently Oriflame's Group Controller. Gabriel Bennet has been with the Company for two years.

Consolidated income statement

Year ended 31 December

€'000	Note	2006	2005
Sales	3	917,945	765,690
Cost of sales		(283,283)	(242,961)
Gross profit		**634,662**	**522,729**
Selling and marketing expenses		(334,871)	(277,803)
Administrative expenses	4	(172,736)	(138,180)
Operating profit before restructuring	3	**127,055**	**106,746**
Loss on disposal of subsidiary		–	(4,201)
Operating profit after restructuring		**127,055**	**102,545**
Financial income	5	579	465
Financial expenses	5	(19,306)	(5,527)
Net financing costs		**(18,727)**	**(5,062)**
Net profit		**108,328**	**97,483**
Current tax	6	(17,745)	(9,919)
Deferred tax	6	2,916	(1,283)
Net profit		**93,499**	**86,281**
Earnings per share, €	7		
Basic		1.62	1.45
Diluted		1.61	1.45

The attached notes on pages 37 to 50 form an integral part of the consolidated financial statements.

Consolidated balance sheet

At 31 December

€'000	Note	2006	2005
Assets			
Intangible assets	8	11,393	11,152
Property, plant and equipment	9	124,593	102,581
Deferred tax assets	10	12,446	7,110
Other long term receivables		6,534	3,768
Total non-current assets		**154,966**	**124,611**
Inventories	11	140,940	144,196
Trade and other receivables	12	78,328	69,670
Cash and cash equivalents	13	62,000	50,907
Total current assets		**281,268**	**264,773**
Total assets		**436,234**	**389,384**
Equity			
Share capital	14	69,588	74,354
Reserves	15	(34,681)	25,941
Retained earnings	15	66,509	103,980
Dividend	15	(53,534)	(44,506)
Total capital and reserves		**47,882**	**159,769**
Liabilities			
Interest-bearing loans	16	235,668	1,083
Other long term non interest-bearing liabilities		292	259
Deferred tax liabilities	10	4,977	2,557
Total non-current liabilities		**240,937**	**3,899**
Current portion of interest-bearing loans	16	19,823	123,316
Taxes payable		7,630	5,638
Trade and other payables	17	103,443	87,410
Provisions	21	16,519	9,352
Total current liabilities		**147,415**	**225,716**
Total equity and liabilities		**436,234**	**389,384**

The attached notes on pages 37 to 50 form an integral part of the consolidated financial statements.

Consolidated statement of changes in shareholders' equity

€'000	Share capital (Note 14)	Share premium	Legal reserve	Special reserve	Translation reserve	Hedging reserve	Other reserves	Total reserves (Note 15)	Retained earnings (Note 15)	Total equity
At 31 December 2004	**74,177**	**57,531**	**6,678**	**5,313**	**(51,510)**	**242**	**–**	**18,254**	**18,397**	**110,828**
Increase of new shares	177	2,178	–	–	–	–	–	2,178	–	2,355
Cash flow hedging reserve	–	–	–	–	–	(451)	–	(451)	–	(451)
Translation gain for the period	–	–	–	–	4,770	–	–	4,770	–	4,770
Movement in legal reserve	–	–	670	–	–	–	–	670	(698)	(28)
Other movements	–	–	–	–	–	–	520	520	–	520
Dividend	–	–	–	–	–	–	–	–	(44,506)	(44,506)
Profit for the period	–	–	–	–	–	–	–	–	86,281	86,281
At 31 December 2005	**74,354**	**59,709**	**7,348**	**5,313**	**(46,740)**	**(209)**	**520**	**25,941**	**59,474**	**159,769**
Redeemed shares	(4,766)	(59,709)	–	–	–	–	–	(59,709)	(86,231)	(150,706)
Cash flow hedging reserve	–	–	–	–	–	857	–	857	–	857
Translation loss for the period	–	–	–	–	(4,835)	–	–	(4,835)	–	(4,835)
Release of translation reserve	–	–	–	–	217	–	–	217	(217)	–
Movement in legal reserve	–	–	16	–	–	–	–	16	(16)	–
Share incentive plan	–	–	–	–	–	–	2,832	2,832	–	2,832
Dividend	–	–	–	–	–	–	–	–	(53,534)	(53,534)
Profit for the period	–	–	–	–	–	–	–	–	93,499	93,499
At 31 December 2006	**69,588**	**–**	**7,364**	**5,313**	**(51,358)**	**648**	**3,352**	**(34,681)**	**12,975**	**47,882**

The attached notes on pages 37 to 50 form an integral part of the consolidated financial statements..

Consolidated cash flow statement

Year ended 31 December

€'000	Note	2006	2005
Operating activities			
Operating profit		127,055	106,746
Adjustments for:			
Depreciation and amortisation		14,732	13,062
Share incentive plan		2,832	520
Foreign exchange gain/(loss)		(4,732)	(2,817)
Profit (loss) on disposal of property, plant and equipment		(218)	(1,045)
Operating profit before changes in working capital		**139,669**	**116,466**
Decrease / (increase) in trade and other receivables		(12,694)	(16,586)
Decrease / (increase) in inventory		2,827	(31,976)
Increase / (decrease) in trade and other payables		19,789	15,098
Cash generated from operations		**149,591**	**83,001**
Interest and bank charges paid		(16,137)	(9,611)
Income taxes paid		(11,872)	(9,950)
Cash flow from operating activities		**121,582**	**63,440**
Investing activities			
Proceeds on sale of property, plant and equipment		443	1,630
Interest received		579	465
Purchase of property, plant and equipment		(37,914)	(37,815)
Purchase of intangible assets		(2,592)	(3,827)
Cash flow from investing activities		**(39,484)**	**(39,547)**
Financing activities			
Funds received from refinancing and movement in loans		133,171	41,088
Redemption of shares		(153,434)	–
Proceeds from exercised options		2,728	2,355
Dividend		(53,502)	(44,460)
Cash flow from financing activities		**(71,037)**	**(1,017)**
Increase in cash and cash equivalents		**11,061**	**22,876**
Cash and cash equivalents at 1 January		50,895	26,814
Effect of exchange rate fluctuations on cash held		(189)	1,205
Cash and cash equivalents at the end of the period	13	**61,767**	**50,895**

The attached notes on pages 37 to 50 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 20 Rue Philippe II, 2340 Luxembourg. The principal activity of the Company's subsidiaries is the direct sale of cosmetics. The consolidated financial statements of the Company for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the "Group"). The financial statements were authorised for issue by the Directors on 12 April 2007.

Note 2 • Summary of significant accounting policies

The consolidated financial statements of Oriflame Cosmetics S.A. have been prepared by management in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union and the interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. Separate statutory consolidated financial statements for the Company have been prepared in accordance with Luxembourg law and are available from the Company upon request.

(a) Basis of preparation

The 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.

The preparation of 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.

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.

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

(b) Basis 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.

(c) 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 balance sheet 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 income statement. 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 balance sheet 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 income statement.

Certain subsidiaries of the Company operate in hyperinflationary economies. The Board of Directors consider, as a matter of judgement, an economy to be hyperinflationary when the cumulative inflation rate over three years is significant and where economic trends indicate that this inflation rate is not temporary. The financial statements of such subsidiaries are adjusted for the effects of inflation, and then converted into euros.

(d) Derivative financial instruments

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 (e)). The fair value of interest swaps is the estimated amount which the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

(e) 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 income statement at the same time as the hedged transaction. The ineffective part of any gain or loss is recognised in the income statement 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 income statement.

(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 income statement.

(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.

(f) Revenue

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 income statement 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.

(g) Employee benefits

(i) Pension obligations

Obligations for contributions to defined benefit pension plans are recognised as an expense in the income statement as incurred. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted.

The cost of providing for retirement pensions and related benefits is charged to the income statement over the periods that the Group benefits from the employees' service. For pension schemes providing defined benefits, the regular annual pension cost is based on estimates by consulting actuaries. Past service costs are amortised over the period until the benefits become vested. The effect of changes in actuarial estimates are amortised over the estimated average remaining service lives of the employees concerned. For defined contribution schemes, the cost is the premium payable during the year.

(ii) Equity-related compensations

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 the 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.

(h) Taxation

Tax on the profit or loss for the year comprises current and deferred tax.

Current tax comprises income tax payable calculated on the basis of the expected taxable income for the year, any adjustments of tax payable for previous years and other corporate taxes payable.

Deferred tax is provided using the balance sheet liability method on all temporary differences between carrying amounts for financial reporting purposes and the amounts used for taxation purposes. 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 amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax asset is recognised only to the extent that it is probable future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(i) 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 no longer 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.

(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 are 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 amortised and impairment losses.

(v) Amortisation

Amortisation is charged to the income statement 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 balance sheet date. Intangible assets, except goodwill, are amortised from the date they are available for use. The estimated useful life for licences is 10 years, trademarks between 5 and 10 years, capitalised development costs between 3 and 5 years and software between 3 and 5 years.

(j) 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 balance sheet 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 income statement.

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 income statement as an expense as incurred.

(iv) Depreciation

Depreciation is charged to the income statement 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

(k) Investment property

Investment property is 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. Rental income from investment property is recognised within selling and administrative expenses in the income statement over the term of the lease.

(l) Inventory

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the selling expenses. For finished goods manufactured by the Group, cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

The cost of inventory is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their final location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

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

(m) Trade and other receivables

Trade and other receivables are stated at cost less impairment losses (see accounting policy o).

(n) 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.

(o) Impairment

The carrying amount of the Group's assets, other than inventories (see accounting policy l) and deferred tax assets (see accounting policy h), are reviewed at each balance sheet 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 balance sheet 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 income statement.

The recoverable amount of assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax 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.

(p) Share capital

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

(q) Interest-bearing borrowings

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

(r) Trade and other payables

Trade and other payables are stated at cost.

(s) Provisions

A provision is recognised in the balance sheet 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.

(t) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease. Lease incentives received are recognised in the income statement 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, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement.

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

(u) Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Note 3 • Segment reporting

The primary and the only segmentation of the business is based on geographic cosmetics sales. The segmentation is based on the Group's management and internal reporting structure.

	Sales		Operating profit	
€'000	**2006**	**2005**	**2006**	**2005**
CIS & Baltics	496,484	382,853	99,285	72,751
Central Europe & Mediterranean	223,844	209,854	45,404	43,157
Western Europe & Africa	90,317	84,422	11,266	10,687
Latin America	39,970	33,302	4,443	2,053
Asia	43,649	30,608	106	(1,019)
Group overhead and other operations	23,681	24,651	(33,449)	(20,883)
Consolidated	**917,945**	**765,690**	**127,055**	**106,746**

	Capital expenditure		Depreciation and amortisation	
€'000	**2006**	**2005**	**2006**	**2005**
CIS & Baltics	6,583	7,322	4,118	3,226
Central Europe & Mediterranean	1,129	2,007	2,116	2,042
Western Europe & Africa	930	1,452	1,067	1,367
Latin America	541	257	307	296
Asia	1,216	1,427	666	648
Group overhead and other operations	30,107	29,177	6,458	5,483
Consolidated	**40,506**	**41,642**	**14,732**	**13,062**

	Assets		Liabilities	
€'000	**2006**	**2005**	**2006**	**2005**
CIS & Baltics	126,403	122,863	25,849	16,375
Central Europe & Mediterranean	57,511	56,431	9,627	16,229
Western Europe & Africa	34,051	30,661	9,363	19,116
Latin America	14,170	13,697	2,999	3,051
Asia	16,608	11,472	9,815	5,303
Group overhead and other operations	187,491	154,260	330,699	169,541
Consolidated	**436,234**	**389,384**	**388,352**	**229,615**

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The Group overhead and other operations segment includes revenue and expenses from, amongst others, mail order business and licensee sales and new markets, assets and liabilities of the manufacturing facilities, unallocated items such as corporate assets and expenses, and interest bearing loans and expenses.

In 2006 Egypt and Morocco were included in the region Western Europe & Africa, previously reported in the region Central Europe & Mediterranean. Additionally, results, assets and liabilities of Oriflame UK Ltd, the Company in which the Group conducted all its UK and Ireland operations and that was sold during 2006, was reclassified from the Western Europe & Africa region to the Group overhead and other operations segment. Oriflame UK Ltd became a franchisee. The previous year's figures have been restated to reflect these changes.

Note 4 • Administrative expenses

Administrative expenses are stated after charging:

€'000	**2006**	**2005**
Salaries and wages	87,211	70,398
Social security contributions	17,774	13,132
Pension expenses	4,250	3,788
Equity settled transactions	2,832	520
	112,067	**87,839**
Less amounts presented in cost of sales	(14,455)	(7,799)
Personnel expenses	**97,612**	**80,039**
Directors' emoluments	524	484
Auditors' remuneration	1,054	947
Auditors' remuneration for non-audit services	409	78
Research and development	9,615	7,645
Depreciation	13,153	11,929
Amortisation	1,579	1,133
Deprecation and amortisation expenses	**14,732**	**13,062**

The average number of employees in 2006 was 5,610 (4,961).

Note 5 • Net financing costs

€'000	**2006**	**2005**
Interest income	579	465
Interest rate swap expense	(599)	(916)
Bank interest and charges		
including borrowing costs	(14,266)	(9,415)
Net foreign exchange gain / (loss)	(4,441)	4,804
Net financing costs	**(18,727)**	**(5,062)**

Note 6 • Income tax expense

€'000	**2006**	**2005**
Recognised in the income statement		
Current tax expense	17,745	9,919
Deferred tax expense		
Origination and reversal		
of temporary differences	(1,305)	2,601
Utilisation of losses brought forward	(1,611)	(1,318)
	(2,916)	**1,283**
Total income tax expense		
in the income statement	**14,829**	**11,202**
Reconciliation of effective tax rate		
Profit before tax	108,328	97,483
Average applicable tax rate, %	8.6	8.3
Tax at applicable tax rate	9,358	8,106
Adjustment to tax expense		
Non-deductible expenses	4,210	2,096
Utilisation of tax losses brought forward	(1,611)	(1,318)
Withholding taxes	1,340	1,218
Other taxes	1,428	1,100
Adjustments in respect of prior years	104	–
Tax expense	**14,829**	**11,202**
Effective tax rate, %	**13.7**	**11.5**

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

Note 7 • Earnings per share

(a) Basic

Earnings per share are based on the net profit attributable to ordinary shareholders of €93,499,000 (€86,281,000) and the weighted average number of shares outstanding during the year. The weighted average number of shares used in the computation was 57,707,131 for the year to 31 December 2006 (59,412,892).

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

	2006	**2005**
Weighted average number		
of shares outstanding (basic)	57,674,309	59,412,892
Effect of share schemes	399,519	86,267
Weighted average number		
of shares outstanding (diluted)	**58,073,828**	**59,499,159**

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 8 • Intangible assets

€'000	Software	Trademarks	Licences	Goodwill	Total
Cost					
At 31 December 2004	**5,087**	**538**	**2,924**	**5,398**	**13,947**
Additions	3,688	139	–	–	3,827
Re-classification	177	–	–	–	177
Disposals	(818)	–	–	–	(818)
Translation	183	–	–	–	183
At 31 December 2005	**8,316**	**678**	**2,924**	**5,398**	**17,316**
Additions	2,447	145	–	–	2,592
Re-classification	–	–	31	–	31
Disposals	(754)	–	–	–	(754)
Translation	(14)	–	–	–	(14)
At 31 December 2006	**9,996**	**822**	**2,955**	**5,398**	**19,171**
Amortisation					
At 31 December 2004	**1,891**	**338**	**2,924**	**–**	**5,153**
Charge for the year	1,089	45	–	–	1,134
Re-classification	(24)	–	–	–	(24)
Disposals	(109)	–	–	–	(109)
Translation	9	–	–	–	9
At 31 December 2005	**2,856**	**384**	**2,924**	**–**	**6,164**
Charge for the year	1,478	56	–	–	1,534
Re-classification	45	–	–	–	45
Disposals	–	–	–	–	–
Translation	35	–	–	–	35
At 31 December 2006	**4,414**	**440**	**2,924**	**–**	**7,778**
Net book value					
At 31 December 2004	**3,196**	**200**	**–**	**5,398**	**8,794**
At 31 December 2005	**5,461**	**294**	**–**	**5,398**	**11,152**
At 31 December 2006	**5,582**	**382**	**31**	**5,398**	**11,393**

During 1997, the Company acquired the remaining 49 per cent of the Group's interest in Portugal from a party related to the af Jochnick family. This resulted in a goodwill amount of €2.3 million. During 2001, goodwill of €4.6 million arose on acquisition of Rockport Mauritius Ltd and at the end of 2001, the minority shareholders of Oriflame India Pvt. Ltd. were bought out which resulted in goodwill of €1.8 million. Upon issuance of IFRS3 – Business combinations, the Company discontinued amortisation of existing goodwill and the carrying amount of the accumulated depreciation (€3.3 million) was eliminated with a corresponding decrease in goodwill. (At balance sheet date, the goodwill was tested for impairment. Included in software additions during the year are costs for own developed software for an amount of €0.6 million (€1.4 million)).

Note 9 • Property, plant and equipment

€'000	Freehold land & buildings	Improvements to leasehold property	Plant & machinery	Furniture & equipment	Computer equipment	Motor vehicles	Under construction	Total
Cost								
At 31 December 2004	**44,335**	**13,069**	**27,711**	**12,326**	**21,569**	**6,081**	**8,786**	**133,877**
Additions	3,428	1,681	4,701	1,947	4,216	947	20,895	37,815
Disposals	(406)	(409)	(443)	(707)	(1,388)	(1,112)	–	(4,465)
Re-classification	829	(161)	(265)	(24)	(23)	227	(766)	(183)
Translation	3,433	815	1,069	781	961	320	–	7,379
At 31 December 2005	**51,619**	**14,995**	**32,773**	**14,323**	**25,335**	**6,463**	**28,915**	**174,423**
Additions	2,571	2,154	6,770	2,864	3,227	1,029	18,744	37,359
Disposals	(2)	(487)	(573)	(1,170)	(1,173)	(1,127)	–	(4,532)
Re-classification	4,953	542	(1,193)	(35)	(9)	–	(4,312)	(54)
Translation	(820)	(345)	(242)	(281)	(219)	(75)	(627)	(2,609)
At 31 December 2006	**58,321**	**16,859**	**37,535**	**15,701**	**27,161**	**6,290**	**42,720**	**204,587**
Depreciation								
At 31 December 2004	**8,052**	**5,951**	**16,981**	**8,761**	**17,279**	**3,799**	**–**	**60,823**
Charge for the year	1,831	1,958	2,721	1,347	2,802	1,268	–	11,927
Disposals	(35)	(377)	(369)	(672)	(1,443)	(982)	–	(3,878)
Transfers	114	(158)	–	(28)	21	51	–	–
Translation	539	406	631	540	652	201	–	2,969
At 31 December 2005	**10,501**	**7,780**	**19,964**	**9,948**	**19,311**	**4,337**	**–**	**71,841**
Charge for the year	1,089	2,121	3,974	1,686	3,403	894	–	13,167
Disposals	–	(480)	(569)	(1,131)	(1,084)	(1,043)	–	(4,307)
Transfers	–	–	–	(14)	–	–	–	(14)
Translation	(61)	(225)	(35)	(190)	(152)	(30)	–	(693)
At 31 December 2006	**11,529**	**9,196**	**23,334**	**10,299**	**21,478**	**4,158**	**–**	**79,994**
Net book value								
At 31 December 2004	**36,283**	**7,118**	**10,730**	**3,565**	**4,290**	**2,282**	**8,786**	**73,054**
At 31 December 2005	**41,118**	**7,215**	**12,809**	**4,375**	**6,024**	**2,126**	**28,915**	**102,582**
At 31 December 2006	**46,792**	**7,663**	**14,201**	**5,402**	**5,683**	**2,132**	**42,720**	**124,593**

(a) Finance leases

Included in property, plant and equipment at 31 December 2006 is the net book value of assets under finance leases which totaled €1,170,419 (€1,575,000), of which furniture and equipment €18,315 (€84,000), motor vehicles €156,877 (€221,000), plant and machinery €995,227 (€1,270,000).

(b) Investment property

Included in freehold land and buildings are investment properties amounting to a net book value of €1,962,577 (€2,885,000). Net rental income from these assets in 2006 was €334,734 (€305,000).The Board of Directors is of the view that the fair value of the investment properties approximates to their book value.

Note 10 • Deferred taxation

Deferred tax assets and liabilities at 31 December 2006 and 2005 are attributable to the items detailed in the table below:

	2006			2005			
€'000	Assets	Liabilities	Net	Assets	Liabilities	Net	Movement
Properly, plant and equipment and intangible assets	400	(2,086)	(1,686)	243	(1,101)	(858)	(828)
Inventories	2,294	(2,287)	7	873	(582)	291	(284)
Trade and other receivables	299	(116)	183	444	(96)	348	(165)
Accruals	4,786	–	4,786	1,212	(17)	1,195	3,591
Other	2,499	(488)	2,011	550	(761)	(211)	2,222
Tax losses carried forward	2,168	–	2,168	3,788	–	3,788	(1,620)
Tax assets/(Liabilities)	**12,446**	**(4,977)**	**7,469**	**7,110**	**(2,557)**	**4,553**	**2,916**

Unrecognised deferred tax assets

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

€'000	2006	2005
Deductible temporary differences	5,266	13,586
Tax losses	66,752	29,836
Total	**72,018**	**43,4226**

The losses are available for carry forward in varying amounts and expire over an average period of five to ten 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 11 • Inventories

€'000	2006	2005
Raw materials	13,635	10,301
Work in progress	100	104
Finished goods	126,798	133,413
Other inventories	18,652	17,224
Inventory reserves	(18,245)	(16,846)
	140,940	**144,196**

Note 12 • Trade and other receivables

€'000	2006	2005
Trade receivables	40,683	41,144
Other receivables	15,958	9,526
Prepaid expenses	21,687	19,000
	78,328	**69,670**

Trade receivables are shown net of impairment losses amounting to €20.7 million recognised in the current year (€20.7 million).

Note 13 • Cash and cash equivalents

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

€'000	Cash and term deposits	Bank overdrafts	Total
At 31 December 2004	**27,044**	**(229)**	**26,815**
Net flow	22,658	217	22,875
Exchange differences	1,205	–	1,205
At 31 December 2005	**50,907**	**(12)**	**50,895**
Net flow	11,282	(220)	11,061
Exchange differences	(189)	–	(189)
At 31 December 2006	**62,000**	**(232)**	**61,767**

Note 14 • Share capital

The Company has one class of share capital with an authorised share capital of €102.400.000. 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 is detailed below:

	No. of shares	€'000
Share capital		
Balance 31 December 2004	**59,341,429**	**74,177**
Issued on issuance of new shares (i)	141,761	177
Balance 31 December 2005	**59,483,190**	**74,354**
Cancellation of redeemed shares (ii)	(3,813,304)	(4,766)
Balance 31 December 2006	**55,669,886**	**69,588**

(i) On 30 June 2005, the Group issued 141,761 shares to Oriflame employees as part of the share: Incentive plan that was approved by the EGM on 19 May 2005. The consideration received was €2.4 million, of which €0.2 million was credited to the share capital and €2.2 million was credited to share premium

(ii) On 30 October 2006 the Company cancelled 3,813,304 shares, which were redeemed during the summer (see Note 15 v).

Note 15 • Reserves

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

(ii) Translation reserve
Included in the translation loss for 2006 are the following:

(a) Exchange loss of €2.6 million (€3.6 million gain) arising on long term inter-company debt of an investment nature, and ;

(b) A foreign exchange loss of €1.3 million (€2.0 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 €9.6 million (€10.3 million):

(iii) Hedging reserve
The hedging reserve comprises the effective portion of the cumulative net change in fair value of the cash flow hedging instruments where the hedged transaction has not yet occurred.

(iv) Dividends
In May 2006, the AGM of the Company approved a dividend of €0.90 per share, as proposed by the Board of Directors, amounting to €53.5 million in total.

The Board of Directors will propose to the AGM in May 2007 a dividend payment of €1.01 per share, amounting to €56.2 million in total.

(v) Share redemption
In May 2006, the EGM of the Company approved distribution of €2.60 per share through a redemption programme. In July 2006 the Company redeemed 3,923,212 shares at €39 each or €153.0 million in total. The cost of the redemption programme was €0.4 million, which was registered immediately in retained earnings. Subsequently the Company cancelled 3,813,304 shares reducing the share capital, share premium and the retained earnings respectively by €4.8 million, €59.7 million and €84.2 million. The remaining 109,908 redeemed shares were sold to employees at market price (€2.7 million in total) as investment shares in the 2006 share incentive scheme. The difference of €1.6 million between the redeemed value of €4.3 million and the consideration received from the employees was expensed in retained earnings. (see Note 18).

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

Note 16 • Interest-bearing loans

On 4 April 2006 the Company entered into an agreement for a €375.0 million, multi-currency committed five year credit facility (the "Credit Facility"), which consists of €200.0 million revolving and €175.0 million term facility . The term facility is amortised by equal quarterly repayments as follows:

€15.0m from 31 December 2006 until 30 June 2007
€15.0m from 30 September 2007 until 30 June 2008
€20.0m from 30 September 2008 until 30 June 2009
€20.0m from 30 September 2009 until 30 June 2010
€105.0m from 30 September 2010 until 4 April 2011.

The purpose of the facility was to finance the dividend pay out (€53.5 million), the redemption of shares (€153.0 million), the refinancing of the existing debt of €85.0 million and for general corporate purposes. The Credit Facility provides that utilisations may be in euros or other freely available currencies, as agreed. The interest payable is calculated at the relevant inter-bank rate plus the applicable margin.

The Credit Facility contains a number of operating covenants, including restrictions on subsidiary borrowings, restrictions on lending and giving guarantees for financial indebtedness, and restrictions on the disposal of material assets. It also contains a number of financial covenants which include required ratios of consolidated net debt to consolidated EBITDA of the Group and operating profit interest coverage.

Note 16 cont'd.

€'000		2006	2005
Non-current liabilities	Interest rate		
Revolving credit facility	Euribor + variable margin	234,921	–
Finance lease long-term liabilities		747	1,083
		235,668	**1,083**
Current liabilities			
Short-term loans		1,713	122,895
Current portion of long-term loans		17,500	-
Finance lease short-term liabilities		378	409
		19,591	**123,304**
Loans outstanding at 31 December are maturing as follows:			
Within one year, or on demand		19,213	122,895
Between two and five years		234,921	–
Over five years		–	–
		254,134	**122,895**

Finance lease liabilities are payable as follows:

€'000	Payments	Interest	Principal
Less than one year	446	68	378
Between one and three years	795	52	743
Between three and five years	4	–	4
More than five years	–	–	–
	1,245	**120**	**1,125**

At 31 December 2006, the Group had total banking facilities available of €379.5 million (€234.0 million), of which €257.2 million (€125.9 million) has been utilised as bank overdrafts, guarantees, short-term loans and long-term loans.

Note 17 • Trade and other payables

€'000	2006	2005
Trade payables	27,665	21,238
Other payables	18,981	20,848
Accrued expenses	56,797	45,324
	103,443	**87,410**

Note 18 • Equity compensation plans

During 2004 the major shareholders, the af Jochnick family and the Industri Kapital 1997 Fund, issued 166,500 options to certain employees of the Group. The options will vest on the day of the announcement of the 2006 annual accounts and will be exercisable 30 days after at a strike price of SEK 190. The options will expire immediately thereafter.

On 19 May 2005 the Oriflame EGM approved a share incentive plan, according to which key Oriflame employees are entitled to receive a certain number of 'achievement' shares for free for every 'investment' share they were offered to subscribe for after three years, provided that the Company achieves certain growth in operating profit for that period. The EGM authorised the Board of Directors to offer up to 150,000 investment shares annually for the years 2005–2007. The fair value of services received in return for share options is measured by reference to the value of the share options granted. The estimate of the fair value of the share options is measured based on a Black Scholes model.

The number of investment shares is as follows:

	2006 share scheme	2005 share scheme
Granted at the beginning of the scheme	109,908	141,761
Forfeited during 2005	–	(1,800)
Forfeited during 2006	(800)	(13,300)
Outstanding at the end of the period	109,108	126,661

Note 19 • Related parties

Identity of related parties
The Group has a related party relationship with its subsidiaries (see Note 20), its directors and executive officers, and a number of companies related through common key management personnel or ownership interests.

Transactions with key management personnel
The Directors of the Company held beneficial interests in the shares of the Company at 31 December as follows:

Number of shares	
R. af Jochnick and family	3,761,465
J. af Jochnick and family	4,622,823
Christian Salamon	2,000
Bodil Eriksson	–
KimWahl	–
Helle Kruse Nielsen	–
Lennart Björk	10,000
Magnus Brännström	158,500

The major shareholders the af Jochnick family and the Stichting af Jochnick Foundation, jointly exercise control over 14,400,289 shares which represent 25.9% of the issued share capital and the outstanding shares as at 31 December 2006.

The key management personnel compensation is as follows:
For the year ended 31 December 2006, the members of the Board of Directors (excluding the Chairman and Magnus Brännström who, in his capacity as Chief Executive Officer, is an employee) received total compensation of €145,000 (€76,250). The Chairman received €48,750 (€30,000).

For the year ended 31 December 2006, the Chief Executive Officer received total compensation of €836,266 (€540,605), of which €581,620 was salary, and €81,352 pension contributions under the pension scheme for senior management, and €173,294 other benefits and allowances.

Total compensation to the members of the Executive Committee (excluding the Chief Executive Officer) who were employed in the year ended 31 December 2006, were €2,687,728 (€1,371,679), which was made up of €2,297,281 in salaries, €201,359 in payments into pension schemes and €189,088 in other benefits and allowances.

Other related party transactions
During the period, the following transactions were conducted with related parties:

€'000	2006	2005
Services provided by Cypoint AB	46	113
Services provided by Credus Management AB	2	
Expenses and employee costs incurred on behalf of and recharged to Medicover S.A.	1,696	1,207
Medicover health care services	227	225

Cypoint AB provides services to host the extranet website and assist with the corporate intranet. In the past, Cypoint has developed both the extranet and intranet programmes. Robert af Jochnick has been a director of Cypoint AB since 2001.

In 2006 Credus Management AB, a Swedish company wholly owned by Robert af Jochnick, invoiced Oriflame for consultancy fees provided on an arm's length basis to Oriflame by employees of Credus, other than Robert af Jochnick.

Administrative and employee costs are incurred on behalf of Medicover Holdings SA in connection with the shared office facilities in Waterloo, Brussels. These costs are recharged to Medicover. Jonas af Jochnick is the Chairman of, and a major shareholder in Medicover. 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.

Note 20 • Group companies

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

Name	Country of incorporation	Percentage share capital held, %
Oriflame Azerbaijan LLC	Azerbaijan	100
Oriflame Cosmetics LLC	Armenia	100
Oriflame Kozmetika BH. D.o.o. Sarajevo	Bosnia	100
Oriflame Bulgaria EOOD	Bulgaria	100
Oriflame Cosmetics Foreign LLC	Belarus	100
Oriflame Management SA	Belgium	100
Oriflame de Chile SA	Chile	100
Oriflame Cosmetics (China) Co. Ltd	China	100
Oriflame de Colombia SA	Colombia	100
Oriflame Kozmetika Croatia doo.	Croatia	100
Oriflame Czech Republic SPOL R.O	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 Kosmetik Vertriebs GmbH	Germany	100
Oriflame Hellas Sole Shareholder Ltd	Greece	100
Oriflame Georgia LLC	Georgia	100
Oriflame Hungary Kozmetika Kft	Hungary	100
Oriflame Persia LLC	Iran	100
Oriflame India Pvt. Ltd.	India	100
SilverOak Laboratories Pvt. Ltd.	India	100
Oriflame GTC Ltd.	Ireland	100
Oriflame LLP	Kazakhstan	100
Oriflame Cosmetics LLC	Kosovo	100
Oriflame Latvija S.I.A	Latvia	100
Oriflame Cosmetics Lebanon Ltd.	Lebanon	100
Oriflame Kosmetika UAB.	Lithuania	100
Oriflame Kozmetika doo.	Macedonia	100
Oriflame Investments Ltd	Mauritius	100
Oriflame (Mexico) 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
Zetes Licence BV.	Netherlands	100
Oriflame Norge A/S	Norway	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

Note 20 cont'd.

Name	Country of incorporation	Percentage share capital held, %
Oriflame Slovakia SPOL ro.	Slovak Republic	100
Oriflame Kozmetica d.o.o.	Slovenia	100
Oriflame Cosmeticos S.A.	Spain	100
Oriflame Lanka Private Ltd	Sri Lanka	100
Nordium AB	Sweden	100
Oriflame Cosmetics AB	Sweden	100
Zetes Holdings AB	Sweden	100

Name	Country of incorporation	Percentage share capital held, %
Zetes SA	Switzerland	100
Oriflame Cosmetics (Thailand) Ltd	Thailand	100
Oriflame Management Asia Ltc	Thailand	100
Oriflame Kozmetik		
Urunleri Ticaret Sirketi Ltd.	Turkey	100
DP "Oriflame Cosmetics" Ukraine	Ukraine	100
DP "Rielty Ukraine"	Ukraine	100
Oriflame Vietnam Ltd.	Vietnam	100

Note 21 • Provisions, commitments and contingent liabilities

(a) Provisions

€'000	Tax litigations	Restructuring	Bonus & profit sharing	Other	Total
Balance at 1 January 2006	5,289	3,064	–	999	9,352
Provisions made during the year	3,138	–	5,114	1,019	9,271
Provisions used during the year	(251)	(154)	–	(471)	(876)
Provisions reversed during the year	(699)	–	–	(529)	(1.228)
Balance at 31 December 2006	7,477	2,910	5,114	1,018	16,519

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

€'000	2006	2005
Within one year	6,538	5,001
Between one and three years	5,933	4,293
Between three and five years	3,658	1,874
Over five years	289	745
	16,418	**11,913**

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

(c) The Group has bank guarantees in place of €2.9 million (2.8 million).

(d) 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 Company continues to actively monitor and defend such litigation.

(e) In conjunction with the sale of ACO in 2003, the Group originally agreed to continue to manufacture and supply a limited part of the ACO product range until 31 December 2007. In 2005, the contract was extended to 31 December 2011.

Note 22 • Pensions

One subsidiary within the Group has established retirement benefit schemes, of the defined benefit, final salary type, funded by contributions from the Company and employees. Contributions to the schemes are determined by qualified actuaries on the basis of valuations, which occur with sufficient regularity to ensure no material differences, using projected benefit valuation methods. Pension costs charged in the year in respect of defined benefit plans amounted to €0.3 million (€0.1 million). Other subsidiaries within the Group operate defined contribution schemes. Pension costs charged for the year for these schemes amounted to €4.3 million (€3.7 million).

Note 23 • Financial instruments

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business. Derivative financial instruments are sometimes used to reduce exposure to fluctuations in foreign exchange rates and interest rates.

(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 expenses.

Strategic currency exposure

Strategic currency exposure arises in countries which are not part of the European Monetary Union (EMU) or whose currencies are not pegged to the euro. When the exchange rate of the non-EMU currencies fluctuates against the euro, it affects the gross margin in those countries, as 80% 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 or by applying the hedging policy.

Management of the Company adopted a policy to hedge the estimated Russian Rouble (RUR) related exposure in respect of forecasted sales and expenses in Russia when this is economically efficient. The Company also hedges up to 100% 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 2006 there were no (€0.0 million) RUR forward exchange rate contracts outstanding for hedging cash flows; and there were a variety of forward exchange contracts outstanding for an amount equivalent of €59.0 million (€45.9 million) with a maturity between May and June 2007 to hedge selected currency transaction exposures.

The Group does not apply hedge accounting for the variety of forward contracts 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 income statement. At 31 December 2006, the fair value of these forward contracts was €0.5 million (€0.1 million) gain.

During 2006 the Group closed in total €183.0 million (€189.8 million) forward contracts, out of which none (€71.6 million) were classified as hedge against net income in Russia, and all (€118.2 million) related to the above mentioned variety of forward contracts. The total net realised loss of all forward contracts closed in 2006 was €0.6 million loss (€6.3 million gain), of which none (€2.3 million gain) was recognised as effective hedge, and all of it (€4.0 million loss) was recognised in the gain and loss on exchange in the income statement.

(b) Interest rate risk

Hedging

In April 2006, the Group decided to hedge its exposure to changes in interest rates on average for 75% of its forecasted loan debts until July 2009 via interest rate swap agreements, denominated in euros. The hedged amount at the beginning of the period is €175.0 million. The Company receives the 6 month euro floating rate biannually and pays the fixed swap rates on average 3.8%.

The Group classifies the interest rate swap as a cash flow hedge and states it at fair value. The fair value of the swap at 31 December 2006 was an asset of €0.6 million (€0.8 million liability).

In respect of income-earning financial assets and interest-bearing financial liabilities the following table indicates their effective interest rates at the balance sheet date and the periods in which they re-price.

2006

€'000	Effective interest rate, %	Total	Less than 1 year	1–3 years	3–5 years	More than 5 years
Cash and cash equivalents	1.46	62,000	62,000	–	–	–
Financial lease liabilities	6.32	(1,125)	(378)	(743)	(4)	–
Revolving credit facility and term loans	3.96	(252,421)	(252,421)	–	–	–
Effect of interest swap	0.55	165,000	(16,250)	(148,750)	–	–
Short term loans	8.73	(1,713)	(1,713)	–	–	–

2005

€'000	Effective interest rate, %	Total	Less than 1 year	1–3 years	3–5 years	More than 5 years
Cash and cash equivalents	1.44	50,895	50,895	–	–	–
Financial lease liabilities	6.04	(1,491)	(409)	(853)	(229)	–
Revolving credit facility	3.62	(119,351)	(119,351)	–	–	–
Effect of interest swap	0.88	100,000	(100,000)	–	–	–
Short term loans	8.40	(3,544)	(3,544)	–	–	–

(c) Credit risk

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.

Cash and cash equivalent deposits are only with counterparties that have high credit ratings and therefore management does not expect any counterparty to fail to meet its obligations.

At balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

(d) Fair value

Financial assets of the Group include cash and cash equivalents, trade and other receivables and forward exchange contracts.

Financial liabilities of the Group include interest-bearing loans, bank overdrafts, trade and other payables, taxes payable and interest rate swaps.

The fair value of the Group's financial assets and liabilities is not materially different from their carrying amounts.

Note 24 • Subsequent events

On 13 February 2007, Oriflame announced that the Board of Directors has asked the Executive Committee to investigate the conditions for and the consequences of establishing a new operational platform for the Group. The purpose of the proposal is to create a lean and more integrated organisation with more powerful product development and shorter lead times. The proposal would involve:

- Establishing a new Group Support Office in Stockholm encompassing:
  - Marketing, Packaging Development and Purchasing
  - Catalogue Development
  - Supply Chain
- Moving Group Finance from Waterloo, Belgium to the existing management office in Fribourg, Switzerland
- Moving the Swedish sales function to the new Group Support Office in Stockholm
- Moving Quality Assurance from Dublin to Stockholm
- Shifting logistics closer to main markets by moving Central Logistics from Waterloo to Moscow and integrating the Nordic Hub in Malmö, Sweden with the existing Group Distribution Hub in Warsaw
- Reinforce the Group's online operations in Stockholm
- And, as a consequence of the above, closing the offices in Waterloo and Malmö.

Oriflame will hold information and consultation meetings with the employees' representatives/unions in Waterloo, Malmö and Dublin. If the outcome of these meetings leads to a final decision to implement the proposed operational platform, the changes will take place when the transition of competence can be made in a secure way. The ambition is for the majority parts of the proposed projects to be completed during 2007.

The cost of the proposal is expected to be in the range of €25–30 million, to be spent over the next two years.

Report of the independent auditors

To the shareholders of Oriflame Cosmetics S.A.

We have audited the accompanying consolidated balance sheet of Oriflame Cosmetics S.A. ("the Company") and its subsidiaries (the "Group"), as of 31 December 2006 and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audits in accordance with International Standards on Auditing as issued by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2006 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use in the European Union.

Brussels, 12 April 2007

Klynveld Peat Marwick Goerdeler Bedrijfsrevisoren, Reviseurs d'Entreprises
Represented by
Marc E. Hoydonckx

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 CEO in accordance with Luxembourg law and Oriflame's Articles of Association and Management practice. Oriflame complies with the Swedish Code of Corporate Governance as published in 2005 (the "Code") to the extent that the Code is not in conflict with Luxembourg law or regulations.

This Corporate Governance Report has not been reviewed by Oriflame's auditors.

General Meetings

In accordance with Oriflame's Articles of Association as last amended by the Extraordinary General Meeting on 19 May 2006, the Annual General Meeting 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. The Annual General Meeting 2007 will be held on 21 May.

At the General Meetings, being Oriflame's highest decision making forum, resolutions are passed with respect to adoption of the income statement and balance sheet as well as the consolidated income statement and balance sheet; 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.

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 (VPC AB), may vote at the meeting by proxy, yet not in person. 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.be) 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.

Oriflame does not host its General Meetings in the Swedish language as the location for Oriflame General Meetings is Luxembourg and the majority of voting rights are held by individuals and entities located outside Sweden. Oriflame does not enable for participation in General Meetings at a distance as this is not financially justifiable. Oriflame did however, in order to compensate for the above, host a shareholders day in Swedish in Stockholm on 26 April 2006 where shareholders 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 2007 such a shareholders day will be held on 25 April.

Board of Directors

The Board has established rules of procedure which set forth how and when the Board convenes, and includes instructions for the allocation of duties and responsibilities within and between the Board and the CEO. The rules of procedure also contain instructions for financial reporting and set forth how reporting to the Board is to proceed. During 2006, the Board revised the rules of procedure for the Board as well as the instructions for the CEO.

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, 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.

At the 2006 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 of a Luxembourg company 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 eight, Board members without deputies. Currently, the Board consists of eight members, of which all were elected at the Annual General Meeting held on 19 May 2006.

The Board consists of principal shareholders, persons closely associated with the principal shareholders and persons independent of such shareholders. The CEO is also a member of the Board. Other Company staff may from time to time participate in Board meetings in order to make presentations or present reports as requested by the Board.

Remuneration to the Chairman of the Board and the Board members is determined by resolution adopted by the Annual General Meeting. The 2006 Annual General Meeting resolved, as suggested by the Nomination Committee, that €43,750 be paid to the Chairman of the Board and that €17,500 be paid to each respective remaining non-executive director for the financial year 2006. The Annual General Meeting further approved, as suggested by the Nomination Committee, to allocate €45,000 to the committees of the Board.

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 2006, Oriflame held 11 Board meetings. The secretary at the meetings is Alexander af Jochnick.

The Board meetings begin with a discussion of the Company's financial situation with costs and sales as the main focus. The various financial reports and the Annual Report are reviewed 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.

The attendance level at Board meetings is high (the average attendance rate at the Board meetings held in 2006 was over 92 per cent) and Board members participate in all discussions. Board members may however not vote 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 voting, and such declaration is entered in the minutes of the meeting. The conflict of interest is reported at forthcoming Annual General Meeting of shareholders.

Board member attendance at Board meetings

The total number of Board Meetings during 2006 was 11.

Board member	Attendance
Robert af Jochnick (Chairman)	11
Lennart Björk	8
Magnus Brännström	11
Bodil Eriksson	7
Jonas af Jochnick	10
Helle Kruse-Nielsen	10
Christian Salamon	8
Kim Wahl	8

Members of the Oriflame Management and Executive Committee 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.

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

Nomination Committee and nomination process

At the Annual General Meeting held on 19 May 2006, 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 in the Company's interim report for the third quarter; 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. During 2006 the Nomination Committee met three times. All meetings were attended by each and everyone of the committee members.

In accordance with the decision of the Annual General Meeting in 2006, the Chairman of the Board, Robert af Jochnick, may be elected to the Nomination Committee, which did indeed occur in 2006. Carlos von Hardenberg, Templeton; Per Hesselmark, Stichting af Jochnick Foundation; Åsa Nisell, Robur; Carl Rosén, 2nd AP-Fund, 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 past year's work of the Nomination Committee comprised the following:

The Nomination Committee has formulated proposals for the Annual General Meeting to be held on 21 May 2007. Such proposals have encompassed details relating to the:

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

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.

Furthermore, the Committee commissioned an independent consultant, Neuman & Nydahl HB, to evaluate the current Board of Directors. Based on the evaluation the Committee drew the conclusion that the Board have 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 compliance with requirements that apply for publicly listed companies in Sweden.

The Nomination Committee decided to propose to the 2007 Annual General Meeting that it elect Robert af Jochnick (Chairman, re-election), Lennart Björk (re-election), Magnus Brännström (re-election), Marie Ehrling, Lillian Fossum, Alexander af Jochnick, Jonas af Jochnick (re-election), Helle Kruse Nielsen (re-election), Christian Salamon (re-election) ,

Lennart Björk, Marie Ehrling, Lilian Fossum, Helle Kruse Nielsen and Christian Salamon are independent of the Company, the Company's Management and the Company's large owners (Christian Salamon was however formerly a representative of Industri Kapital, a large owner in the Company until August 2006). Magnus Brännström is the Company's CEO. Robert and Jonas af Jochnick are co-founders of the company and the af Jochnick family is one of the largest shareholders in Oriflame. Alexander af Jochnick is a member of the founding family and has been an employee of the Company since 1999, most recently as Business Development Manager reporting to Jesper Martinsson, Chief Operating Officer.

After a review of the Board's compensation the Nomination Committee resolved to propose to the 2007 Annual General Meeting the following remuneration in euros for 2007: Chairman of the Board 62,500; non-executive Board member 25,000; member of Audit Committee 10,000 and member of Remuneration Committee 5,000

The Nomination Committee resolved to propose to the 2007 Annual General Meeting that the current Auditors KPMG be re-elected.

Remuneration Committee

The Board appoints a Remuneration Committee. The Remuneration Committee, currently consisting of three members, being Lennart Björk, Robert af Jochnick and Kim Wahl, establishes and reviews remuneration and terms of employment for the Company's executive directors, senior executives and other key personnel.

The Remuneration Committee meets when necessary. The Remuneration Committee reports to the Board of Directors. The Remuneration Committee has met twice in 2006. All metings were attended by all committee members.

Audit Committee

The Company's Audit Committee is appointed by the Board. 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 the accuracy and quality of Oriflame's financial accounts and other financial reports, the procedures for internal financial controls and the work qualifications of the Auditors. The Audit Committee reports to the Board of Directors and meets at least twice per year. In 2006 the Audit Committee met twice.

Current members of the Audit Committee are Helle-Kruse Nielsen, Jonas af Jochnick and Christian Salamon. All meetings were attended by all committee members.

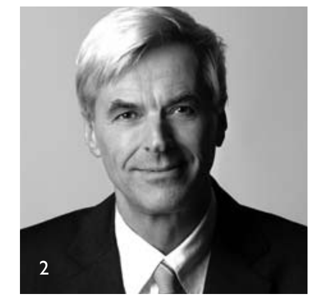
Auditors

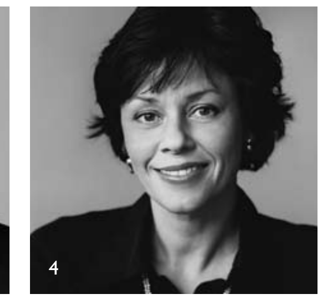
The Annual General Meeting held on 19 May 2006 resolved to elect Marc Hoydonckx, KPMG Audit Réviseur d'Entreprises as independent auditor in respect of the statutory accounts until the close of business of the next Annual General Meeting to be held on 21 May 2007.

Marc Hoydonckx has been engaged as Oriflame's independent auditor since 1986. Apart from his engagement with Oriflame, Marc Hoydonckx audits inter alia Etex Group and Sun Bottling Company. Marc Hoydonckx also has assignments in Medicover SA, which is a company affiliated with one of Oriflame's larger shareholders.

Marc Hoydonckx met with the Board on 2 February 2007 in order to present his findings and report on his views on the quality of Group reporting and affiliated matters related to Group auditing. He has also regularly reported to the Audit Committee.

Board of Directors





1. Robert af Jochnick

Born in 1940.

Co-founder of Oriflame and Chairman of the Board since 2000.

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 Mint Capital Ltd and the af Jochnick Foundation.

Board member of Credus Management AB, Cypoint AB and the World Childhood Foundation. He also serves as treasurer and a member of the operating group of the World Federation of Direct Selling Associations.

Shareholding in Oriflame as at 31 December 2006 (including immediate family members): 3,761,465.

Not independent from the Company being co-founder and a large shareholder.

2. Lennart Björk

Born in 1942.

Elected to the Board in 2005.

Member of the Remuneration Committee.

Chairman of the Board of Gant Company AB.

Shareholding in Oriflame as at 31 December 2006: 10,000.

Independent from the Company.

3. Magnus Brännström

Born in 1966.

Chief Executive Officer.

Elected to the Board in 2005.

Law studies and MSc, Uppsala University.

Shareholding in Oriflame as at 31 December 2006: 158,500.

Not independent from the Company being CEO.

4. Bodil Eriksson

Born in 1963.

Elected to the Board in 2002.

Senior Vice President Communications and Investor Relations at SCA AB.

Berghs School of Communications.

Board member of Nobia AB and Hemtex AB.

Shareholding in Oriflame as at 31 December 2006: 0.

Independent from the Company.

5. Jonas af Jochnick

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.

Chairman of Medicover Holding S.A. and Oresa Ventures S.A. and a Board member of Sigma Asset Management.

Shareholding in Oriflame as at 31 December 2006 (including immediate family members): 4,622,823.

Not independent from the Company being co-founder and a large shareholder.

6. Helle Kruse Nielsen

Born in 1953.

Elected to the Board in 2005.

Member of the Audit Committee.

BSc from Copenhagen Business School.

Board member of Dansk Droge A/S, Gumlink A/S, Vin&Sprit AB, ScanSeason A/S and BestyrelseGruppen.

Shareholding in Oriflame as at 31 December 2006: 0.

Independent from the Company.

7. Christian Salamon

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.

Board member of Lamiflex International AB and E. Öhman J:or (Luxembourg) S.A.

Shareholding in Oriflame as at 31 December 2006: 2,000.

Independent from the Company (however formerly a representative of Industri Kapital).

8. Kim Wahl

Born 1960.

Elected to the Board in 2003.

Member of the Nomination Committee and Remuneration Committee.

BEc University of San Diego.
MBA Harvard Business School.

Deputy Chairman of Industri Kapital as well as one of its founders.

Board member of Dywidag Systems International Holding GmbH, Kwintet AB and Kid Interiör A/S.

Shareholding in Oriflame as at 31 December 2006: 0.

Not independent from the Company being a representative of Industri Kapital.

Oriflame Management and Organisation

CEO and Executive Committee

The CEO is appointed by the Board and is responsible for the day-to-day control of the Group. The Group's COO reports to the CEO.

In accordance with the work procedures set out by the Board, the Executive Committee is, together with the Board, responsible for the formulation of Group strategy, business control and the distribution of resources between the regions. The Executive Committee is headed by the CEO,

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.

In addition to the Chief Executive Officer Magnus Brännström, the Executive Committee consists of Jesper Martinsson (Chief Operating Officer), Kevin Kenny (Chief Financial Officer), Marco Greidinger (Global Supply Director), Inge Heinsius (Global Marketing Director), Jonathan Kimber (Head of Business Development), and Rolf Berg (Global Human Resource Director)

Regional management

Oriflame distributes its products through a network of over 1.9 million independent sales consultants in 59 countries. Group segmentation is based on geographic cosmetics sales by region, currently being CIS & Baltics, Central Europe & Mediterranean, Western Europe & Africa, 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.

Oriflame has local presence in each region in the form of wholly owned sales companies in a total of 46 markets. In 13 countries, Oriflame acts through franchise arrangements with local distributors rather than through subsidiaries. Oriflame is a decentralised organisation where the local sales companies take full responsibility for managing their sales consultants and delivering products. The sales companies are organised into three main areas: Sales and Marketing, Operations and Finance & Administration. Most sales companies operate with their own warehouse facilities and are headed by a managing director. 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.

Global Support and Service

The sales companies are supported by global service functions. The global support and service functions consist of four directors and staff for the Finance, Supply, Marketing and Sales Support functions.

Today, Oriflame's global support and service functions are primarily located at the Oriflame administrative headquarters in Brussels, where over 160 staff from 25 different countries provide support functions in the fields of Marketing, Sales Support, Global Supply, IT and Finance. An additional sixty marketing staff are located in Malmö, Sweden. 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.

To ensure profitable growth in the sales companies and to strengthen the Oriflame brand equity, the Global Marketing Department defines the marketing strategy for Brands & Products, creates the innovation programme and leads the brand communication development. The Global Marketing department, located in Waterloo, embraces communications and product development, while the Company's catalogue development and online operations are centered in Malmö.

The objective of the International Sales Support Department is to ensure that the Company's sales, recruitment and leadership development processes continuously improve and progress. The department also co-ordinates global events for sales consultants and plays an important role in supporting local sales companies with general guidelines and training materials. To ensure that consultants also see a unified brand when visiting service centres and service points, sales support also provides guidelines for these facilities. Oriflame's future depends on its ability to share successful initiatives around the world without delay, and to provide central support for local market rollouts.

In order to sustain the strong growth in demand for Oriflame products, Global Supply focuses on maximising product availability and support to the sales companies. The immediate challenge is to ensure that the right products are in the right place at the right time and, most importantly, in the right volumes. However, in the longer term, Global Supply is also responsible for ensuring that Oriflame can continue to respond to market demands well into the future. This requires the development of innovative natural products, the capacity to manufacture them and the capability to supply them across the globe – and all this while controlling both quality and cost. Global Supply now has a strong team of professionals throughout the entire chain from product development to market delivery and support. Global Supply is organised in five departments concentrating on R&D, Quality Assurance, Purchasing, Manufacturing and Supply Chain activities.

At Oriflame, the finance, legal and tax activities of the Group all come under the rubric of Finance. The Finance department is responsible for Group financial policies and for ensuring timely reporting. It also actively monitors and controls Group performance, suggesting necessary actions when required. The department has been actively involved in improving business control systems, including the use of rolling forecasts. The Legal team is responsible for the legal and tax position in each subsidiary, and also prepares and supports entries into new markets.

In order to further improve the organisational structure, the Executive Committee has proposed to establish a new operational platform for the Group. The proposal would constitute a next strategic step and an investment in Oriflame's brand image and unique selling point – Natural Swedish Cosmetics. The purpose of the proposal is to create a lean and more integrated organisation with more powerful product development and shorter lead times, which is vital to the Company's continued success and would over time lead to higher profitability. The proposed platform principally would entail co-locating the Groups' product development and catalogue functions back to Stockholm, Sweden, where the Company was founded 40 years ago. The proposal would also entail expanding central logistic hubs in Warsaw, Poland and Moscow, Russia. In addition, the proposal includes investment in R&D capabilities with the establishment of a skin care research centre in Stockholm to further enhance the development of skin care products based on Swedish science and natural ingredients. The proposal also includes a further investment of €1.5 million in Oriflame's R&D centre in Dublin. The proposal is currently under investigation. If implemented, the aim is to have the new operational platform fully implemented before the end of 2007.

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 16 per cent of any increase in operating profit to profit sharing to be shared among the top 60 executives. The allocation is according to position and flexed according to performance in the year.

Oriflame has a share incentive plan which covers the top 150 Executives and Managers. Each year the individuals 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 18 to the consolidated financial statements.

Pensions

Members of the Executive Committee 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 and is in compliance with pension requirements in the countries in which it operates.

Non-monetary benefits

Members of the Executive 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 such as 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 per cent of Group sales and profits in 2006. 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 Polish, Swedish, Indian and Chinese manufacturing facilities and 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

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

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

Other risks

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

Report on internal control and monitoring

Oriflame'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.

Each region and the Supply division has appointed a controller who reports directly to the CFO. The controller is responsible for the implementation of internal controls and reporting in accordance with Group guidelines and for ensuring that local laws and regulations are followed.

All companies prepare monthly and quarterly reports to Group requirements. These reports are the base for the Group consolidated accounts and local performance measurements on sales and profitability.

Oriflame uses Cognos Controller for financial reporting and consolidation. Data is stored in a central database from which it can be retrieved for analysis and follow up at a Group, region and sales company level.

Oriflame has a distinct operational and legal structure with transparent organisation and sales activities. The Group organisation safeguards well-established allocation of responsibilities and safeguards guidelines for internal control and supervision. In 2006 the Group reviewed the internal control and reporting functions, and has resolved not to appoint an internal audit function.

This report on internal control and monitoring has not been reviewed by Oriflame's auditors.

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.

Senior management

Brian Bellerose
Legal & Business Development Director

Gabriel Bennet
Group Controller

Rolf Berg
Global Human Resources Director

Magnus Brännström
Chief Executive Officer since 2005

Michael Cervell
Global Director Sales Support

Tatiana Egorova
Regional Financial Controller CIS & Baltics

Thomas Ekberg
Regional Director Asia

Carlos Gonzalesguerra
Regional Financial Controller Latin America

Marco Greidinger
Global Supply Director

Jonas Hedberg
Regional Director Western Europe

Inge Heinsius
Global Marketing Director

Björn Holmsen
Regional Financial Controller China

Christian Jönsson
IT Director

Georgi Karapanchev
Treasurer

Stefan Karlsson
Global Director New Markets

Kevin Kenny
Chief Financial Officer

Jonathan Kimber
Head of Business Development

Edwin Koehler
Group Purchasing Director

Mary Lord
General Manager Global Technical Center

Pavlina Marinova
Regional Financial Controller CE & Med. WE & Africa

Jesper Martinsson
Chief Operating Officer

Sean Monagnan
Group Quality Assurance Director

Pontus Muntzing
Regional Financial Controller Asia

Johan Nordström
Regional Director Central Europe & Mediterranean

Jolanta Pastor
Head of Product Development Marketing

Joanna Poplawska
Group Manufacturing Director

Sandro Ragonesi
Regional Director Latin America

Brian Rolfe
Supply Chain Director

Johan Rosenberg
Regional Director CIS & Baltics

Stephen Syrett
Catalogue & Forecasting Director

Jonas Weidler
Financial Controller Global Supply

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

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