oriflame

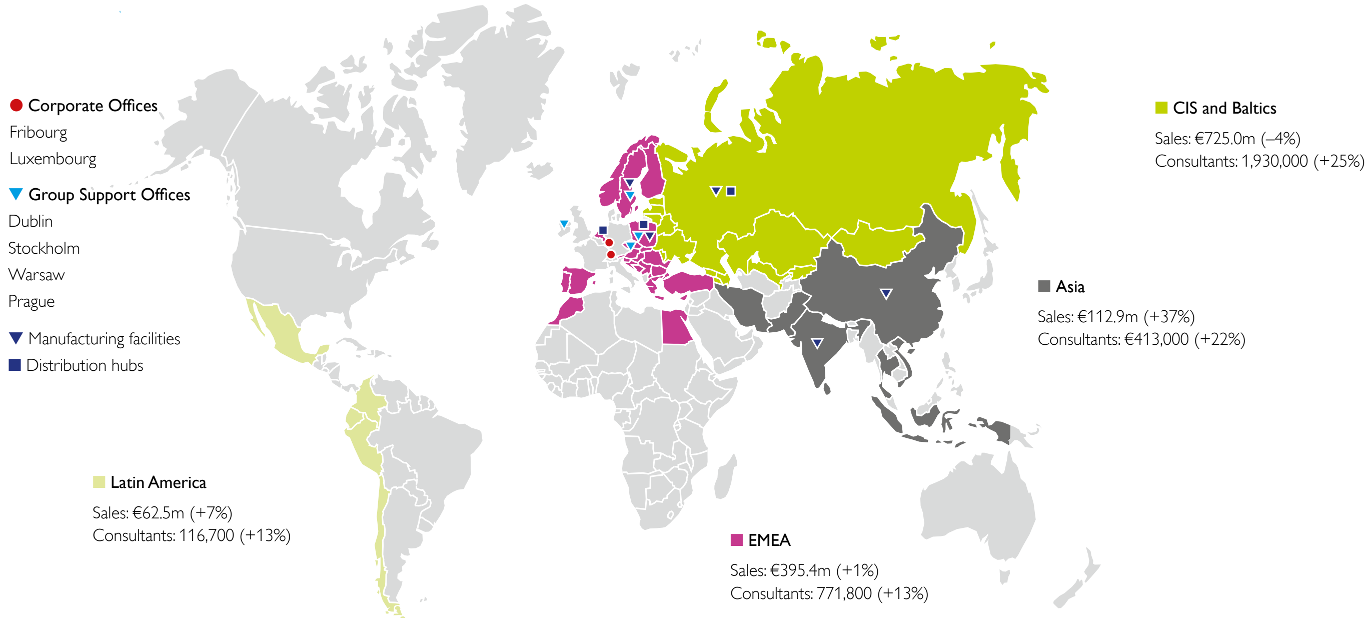
natural swedish cosmetics

ANNUAL REPORT **2009**

ORIFLAME COSMETICS

Quick guide

Market



Oriflame is present in 62 countries, of which the Company is one of the market leaders in more than half.

Cosmetics and direct sales is a compelling combination. The cosmetics industry is recognised as one of the fastest growing consumer products sectors and it is the most important sector for the direct sales industry, representing about 31 percent of total global direct sales. Direct sales as a channel is estimated to have more than a fifth of the total C&T market in Eastern Europe. This is higher than the global average of approximately 11 percent.

Being a cosmetics company selling direct means that Oriflame competes with major cosmetics manufacturers as well as other companies selling direct – both for end-consumers and for sales consultants. Some of the largest competitors are the global manufacturers Procter&Gamble, L'Oreal, Beiersdorf and Unilever as well as the direct sellers Avon and Mary Kay.

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

Company overview

Oriflame in brief

Business model

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

A sales force of approximately 3.2 million independent consultants has seized this opportunity and is successfully marketing Oriflame's wide portfolio of Swedish, natural, innovative beauty products, together creating annual sales exceeding €1.3 billion.

History in brief

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

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

For more than 40 years Oriflame has remained true to its original concept of natural Swedish cosmetics and an entrepreneurial culture. Today, Oriflame is one of the fastest growing international beauty companies, selling direct in 62 countries worldwide.

Business strategy

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

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

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

Market entries

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

Product offering

Oriflame's product offering is building on more than 40 years of skincare and cosmetics expertise – combining the wisdom of nature with the best of science. The Company is providing a wide assortment of distinct product brands at affordable prices:

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

Skin Care

Oriflame has a wide range of innovative skin care products, developed and tested by the Skin Care Research Centre in Ireland. Oriflame Skin Care offers proven, effective solutions to everyday skin care needs.

- *Facial moisturisers*
- *Anti ageing*
- *Hand & Body*

Colour Cosmetics

Oriflame's portfolio offers a wide and sophisticated range of products with formulations and trendy packaging that enhances every woman's natural beauty.

- *Lipsticks*
- *Foundations*
- *Powders*
- *Mascaras*
- *Eye shadows*
- *Nail*

Fragrance

Oriflame offers a qualitative fragrance portfolio ranging from exclusive to the more moderately priced. All fragrances are developed in France to ensure superior quality, innovation and performance.

- *Men*
- *Women*
- *Home fragrance*

Personal & Hair Care

The extensive and high performance hair and body care products offer a variety of ranges to meet daily needs.

- *Hair care*
- *Oral Hygience*
- *Bath and Shower*
- *Deodorant*
- *Foot*

Accessories

Oriflame's accessories are non-cosmetic products aimed at women, men and kids.

- *Hair brushes*
- *Hand bags*
- *Sunglasses*
- *Belts*
- *Pedicure sets*
- *Towels*
- *Bracelets*
- *Necklaces*
- *Toilet bags*
- *Seasonal gifts*

Wellness

Wellness by Oriflame has been carefully designed in partnership with Swedish scientists and nutritional experts to bring innovative, safe and high quality wellness products that will bring out beauty from within.

- *Vitamins*
- *Nutritional shakes*

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

Financial overview

Key events in 2009

- In December, Oriflame Cosmetics S.A. signed a EUR 400m, three-year revolving credit facility with its core relationship banks.
- Oriflame announced that it would build a new EUR 150 – 200m unit production facility and distribution centre in Russia.

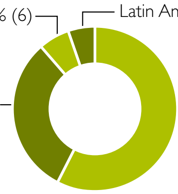
Long-term financial targets

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

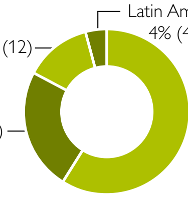
Financial achievements 12 months 2009

- Local currency sales increased by 15 percent and Euro sales amounted to EUR 1,316.6m (1,319.7m).
- Operating margins before restructuring costs were 11.1 percent (14.2) resulting in an operating profit of EUR 146.8m (187.3m).
- Net profit before restructuring costs amounted to EUR 101.7m (133.1m).
- Diluted EPS before restructuring costs amounted to EUR 1.78 (2.36). Diluted EPS after restructuring costs amounted to EUR 1.76 (2.20).
- Cash flow from operating activities improved to EUR 131.7m (91.3m)

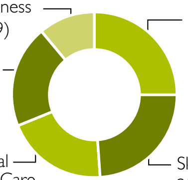
Regional sales 2009



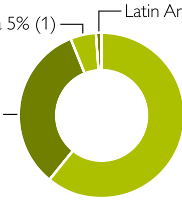
Sales force 2009



Sales by product category 2009



Regional operating profit 2009



Key figures

EUR million unless stated otherwise	2009	2008
Sales	1,316.6	1,319.7
Gross profit	874.8	909.0
Gross margin, %	66.4	68.9
EBITDA	2) 168.1	1) 216.6
Operating profit	2) 146.8	1) 187.3
Operating margin, %	2) 11.1	1) 14.2
Net profit	2) 101.7	1) 133.1
Return on capital employed, ROCE, %	36.2	51.8
Cash flow from operating activities	131.7	91.3
Cash flow from operating activities, per share, EUR	2.31	1.62
Equity/assets ratio, %	25.7	22.2
Net interest-bearing debt	160.0	198.0
Interest cover	6.1	7.0
Earnings per share, diluted, EUR	1.76	2.20
Closing sales force ('000)	3,468.1	2,931.6
Average sales force ('000)	3,284.8	2,784.3
Average number of employees	7,968	7,174

1) Before restructuring costs due to the new operational platform of EUR 8.7m
2) Before restructuring costs in the EMEA region of EUR 1.3m

Oriflame Cosmetics top 10 shareholders as at 31 December 2009

	Shares	Capital and votes, %
Stichting af Jochnick Foundation	6,016,001	10.6
Omnibus*	4,935,559	8.7
Robert & Alexander af Jochnick and family	4,392,735	7.7
Jonas af Jochnick and family	3,611,317	6.4
JP Morgan Bank*	3,152,302	5.5
Swedbank Robur Fonder	3,043,138	5.4
Jupiter Asset Management*	1,864,671	3.3
AMF Försäkring och Fonder	1,569,753	2.8
Oppenheimer lending account*	1,167,068	2.1
4th AP Fund	873,147	1.5
Other	26,188,967	46
Total	**56,814,658**	**100**

Source: Euroclear 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.

The share

- Oriflame Cosmetics was introduced on the NASDAQ OMX Nordic Exchange on 24 March 2004.
- On 31 December 2009, the number of shareholders and SDR holders was 9,406. Each SDR represents one share.
- During 2009, an average of 264,833 shares were traded per day on the Nasdaq OMX Nordic Exchange.
- The last price paid on 31 December 2009 was SEK 428.50 giving Oriflame a total market capitalisation of SEK 24.3 billion.

Dividend proposal

- Oriflame's Board of Directors will propose an unchanged dividend of EUR 1.25 (1.25) per share, amounting to EUR 71.0m, corresponding to 70 percent of net profit before restructuring costs.

Make money today and fulfil your dreams tomorrow™ – a sustainable business model providing a beautiful future for 3.2 million sales consultants around the world.

Statement from the Chairman

The environment has been a priority from day one

During 2009, many of our markets suffered from the global economic turmoil, with strong currency movements affecting the Group's result. However, the underlying business is progressing well, proving that our business model is strong and that we have responded to the negative macro environment in a professional and constructive way. With 15 percent growth in local currencies, we managed to continue to gain market share in our largest region – CIS – and several other key markets. It is especially encouraging that Oriflame has upheld its position as the number one cosmetic brand in Russia and CIS. Entering a challenging year, we stayed true to our strategy and emerged stronger from a period when many companies and nations have weakened.

The key to our success is a strong corporate culture based on dedicated employees, network leaders and sales consultants. We are pleased that 2009 was another year of successful recruitment of sales consultants and that the average number of sales consultants was 3.2 million – an increase of 21 percent!

But we cannot be content. The crisis is not over, and we have many challenges ahead. At the same time, we will continue to make long-term decisions, prioritising the strength of our direct sales offering and market share, especially in strategic markets, over short-term profitability. In 2009, for example, we invested in our nutritional line "wellness", a long-term effort to which we are strongly committed. We have also decided to strengthen our skincare research through a new R&D facility in Stockholm. Further, we continue to work hard to improve Oriflame's production and supply chain structure.

We have also continued to strengthen our important sustainability work, where issues such as climate change and ecosystem degradation are key issues that all companies need to address in a structured and ambitious way. The environment has been a priority from day one and we have made good progress, but there are always new issues to address, which we see as a stimulating challenge in our efforts to serve as a role model among beauty companies selling direct.

Moreover, we have started the Oriflame Foundation, an initiative to strengthen and coordinate Oriflame's continued charity work. Oriflame and my family have been involved in charitable work for many years and it is very satisfying that despite the tough economic climate, we are increasing our efforts. Oriflame is a natural, progressive and ethical company and we will continue to pursue our core values.

Once again, I am proud to be a part of Oriflame and what we have achieved around the world. Thanks to all dedicated Oriflame people, we have continued to prove the strength of Oriflame's business model, and I look forward to yet another successful year.

Robert af Jochnick
Chairman

"We have responded to the negative macro environment in a professional and constructive way."

Statement from the CEO

Always striving for improvement

At year-end, we were happy to report continued sales increases, strong cash-flow and a sales force that had grown to 3.5 million consultants throughout our 62 markets. In a difficult global economic environment – especially affecting many of our key markets – we have yet again proven the strength in the Oriflame business model and captured considerable market shares in many of our key markets.

Oriflame offers a complete range of high-quality beauty products inspired by the purity and power of Swedish nature. The key words are natural, progressive and ethical. This is the firm foundation of the brand and what distinguishes Oriflame from its competitors and makes the brand unique. The products are sold through our direct sales model, where new consultants are provided with the opportunity to make money the same day they join, while starting to build a sales network and striving towards fulfilling their dreams.

For some, selling our products means an extra income to help make ends meet or a way of having fun with friends, neighbours and colleagues. But for others, it is a way of fundamentally changing their lives. These, mostly very ambitious women, quickly build up their own networks of sales consultants. They become strong and independent leaders, build successful careers and, not least, have the opportunity to make a lot of money.

Going forward, our biggest challenge will be to continue maintaining the Oriflame attraction and successfully pursuing the Oriflame core values "togetherness, spirit and passion" throughout the fast growing organization. In Oriflame Academy, we offer a three-step development programme created to support and strengthen our culture, by ensuring that all employees understand our core values and operating principles. It is also aimed at increasing integration, strategic understanding, leadership and management skills. To date, some 1,500 colleagues have completed the first step of the programme, and we will continue until we have reached every individual in our organization and, ultimately, throughout our network of sales consultants.

This is of course an everlasting effort and I will personally keep spending a lot of time travelling around the world to meet, inspire and be inspired by people in our fantastic organization and network. Most are women and thanks to their ambition to strive towards their personal goals, we have more than doubled the size of the Company in five years, taking us closer towards realizing our vision.

In order for us to be able to achieve our vision, we will continue to focus on top-line growth as we have always done, bearing with us our long-term financial goals of 10 percent annual local sales growth and a 15 percent operating margin. Given the need for efficient logistics and the challenging currency situation in Russia and Eastern Europe, we have decided to build a new production facility and distribution centre in Russia. By doing so, we will increase our capacity and service levels – while creating a natural currency hedge in our most important market.

Finally, I am proud of being part of this fantastic Company, with all of its amazing people helping each other and themselves on the way to fulfilling each and every one's individual dream – and to make Oriflame the number one beauty company selling direct.

Magnus Brännström
Chief Executive Officer

Oriflame's success is based on a strong and consistent company culture, promoting an entrepreneurial spirit and a clear set of values. Our mission and passion is to fulfil dreams for people around the world, a dream often focused on building a better quality of life by belonging to the Oriflame sales network.

This is Oriflame

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

Oriflame has 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 sense, Oriflame has helped tear down walls. Oriflame built the first cosmetic factory in Warsaw after the fall of the Berlin wall, was early to enter countries such as India (1996) and one of the first companies to be given a direct sales licence in China (2006).

Our method: Selling direct

Oriflame launched its direct sales method in 1967 – when the Company was founded – as a vital part of its innovative business concept. The model has proven its resilience, sustainability and validity for more than 40 years. It has proven to be a successful marketing method in emerging, as well as mature, markets.

Becoming an Oriflame consultant can provide a way of supporting the family, while fulfilling a career dream. However, it is also a way to achieve a more flexible life or make extra money while studying, being in between jobs or simply to extend one's social life. As a matter of fact, the increasing number of sales consultants as a result of the current recession is proof of our attractive career opportunity. For consumers, the driving force is a more flexible, relaxed and individual way of shopping, receiving personal advice from someone familiar.

Our offer: Look great, make money and have fun

Oriflame offers a complete range of high-quality beauty products marketed through a sales force of independent sales consultants. Oriflame also provides earning opportunities for millions of people who join the Company as sales consultants. The main three drivers for joining Oriflame – regardless of market – are the products, the financial rewards and the opportunity of personal development, i.e. look great, make money and have fun.

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

Our business: The world is our arena

Oriflame is a truly global company. The Company has a sales force of 3.2 million independent consultants and over 8,000 employees in our countries world wide, who manage everything from research, manufacturing and supply chain to the distribution of catalogues. The global platform keeps Oriflame close to fashion trends and customer preferences in different markets.

The beauty and direct selling industry is well-positioned for future growth and Oriflame is one of the leaders in the industry, growing faster than most of our global competitors. Globalisation has opened up extensive potential markets around the world, where our business model has a very good fit.

Our culture: The Oriflame Way

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

Oriflame's corporate culture can be summarised in three key values; togetherness, spirit and passion. All employees are required to be familiar with the Company's values, history and driving forces, called The Oriflame Way, as these are the keys to Oriflame's continued success. Protecting the corporate culture has been one of the greatest and most important challenges to the Company during its strong growth.

Our catalogue: The ultimate shopping experience

The Oriflame catalogue is how the brands and products come to life for our consultants and consumers. The catalogues are literally shops without walls, providing our consultants with their most important, tangible sales tool. A new catalogue is distributed every three to four weeks, which means between 12 and 17 editions a year, depending on local market conditions. Each edition is published in four regional versions – and in 35 languages. Each catalogue includes a display of Oriflame's products, new offers and promotions. Great efforts are made in differentiating between the catalogues to make sure that each offers a new and exciting shopping experience.

Our channels: Online brand presence

Alongside the catalogue, the Internet is becoming the first point of contact and the most important channel of consumer influence in many of Oriflame's major markets, supported by PR, events, leaflets, posters in service centres and, for major launches in key markets – TV, print and billboards. Around 50 percent of the sales force uses the online services and more than half of all orders are placed through the online ordering system.

During 2009, Oriflame re-designed its global Internet platform to further align the online brand presence with all communication channels. Efforts are focused on featuring dynamic presentations of the products, as well as the business opportunity that Oriflame offers. Looking into the future, there is further potential in the current development of online social networks, which will become significant grounds for sales and recruitment activities.

> *Online social networking is the next frontier for direct sellers to reach out, make contact, sell and recruit online. The companies that best integrate this new channel with their traditional model will be the winners of tomorrow.*
>
> Michael Cervell,
> Senior Vice President
> Global Direct Sales

> *Joining Oriflame, I was pleasantly surprised by the diversity of the consultants ranging from teachers and doctors to street vendors and managers, all with different perspectives, values and concerns. You need to genuinely love dealing with people and challenges.*
>
> Supraporn SC Pao,
> Managing Director, Thailand

Oriflame's direct sales model has proven its sustainability and validity for more than 40 years. Current lifestyle trends confirm that our business concept is even more appropriate today than it was 40 years ago, in emerging, as well as mature markets. Oriflame is active in those parts of the world with the fastest growth rates, offering jobs as well as beauty products, putting traditional retail to the test.

Direct Selling – a resilient business model in tune with time

The modern life cycle

Yesterday's life in the western world was more linear, with fewer and predestined life stages: childhood, adulthood, lifelong employment, parenting followed by retirement. Modern life is more complex, the nuclear family norm is being challenged and work is becoming about more than just making money – people fulfil themselves through their careers. Changing employers, roles or priorities has become a way to reinvention. In parallel with this trend, people are confronted with periods of unemployment over a lifetime due to the fast-moving global labour market or times of recession. Moreover, people retiring are in better condition than ever and have the choice to continue professional or voluntary activities.

Based on these trends, direct selling is truly in tune with time. The key drivers, such as being your own boss, setting your own goals, the low barriers of entry and exit, the lack of discrimination regardless of one's sex, ethnicity, age, education, physical condition or financial resources, are all in line with a growing population of entrepreneurs who is less dependant on secure employments.

Prosperity – with less spare time

We tend to spend more time at work and as societies are becoming more gender equal, the amount of working hours per household is increasing. With more work comes higher income, but also less flexibility and spare time. Therefore, demand for timesaving services outside the office increases according to Fredrik Bergström, PhD and former CEO of Handelns Utredningsinstitut, HUI (Swedish Retail Institute). By bringing daily duties, such as paying bills and buying food, into the home, as well as extraordinary events such as buying clothes and finding the perfect summer house, each household has become a point of sale. From our homes, we search for interesting products, we compare prices and we make purchasing decisions at a click.

New sources of information

Trust is a vital measure for PR when the objective is to generate consumer confidence in a product message benefit or educate the consumer on a topic. The key source for consumer information used to be formal marketing material or personal advice from shop assistants, but now it is more word of mouth spread in Internet forums, blogs, fan clubs or during informal gatherings with friends. According to

the GolinHarris US/UK 2009 Trusted Media Index (TMI), which looks at media channels and the levels of trust placed in them, word of mouth had an index of 65, which was the channel with highest credibility above e.g. television.

This trend is particularly strong when it comes to shopping for cosmetics according to a recent survey among 3,500 women in Sweden. Consumers prefer advice based on personal experience, confirmed by a wide and well-known network of references. The direct seller is a familiar and trustworthy source of information about the product, brand, company, industry and supplier. As the competition for consumers' attention and confidence increases, direct selling is offering a unique way of gaining loyal customers.

New consumer behaviour

There is much evidence of new consumer behaviour putting traditional retail to the test, for instance the growing demand for home deliveries, personal shoppers and not the least – online-shopping, which is now the most customised, routine and predictable way to shop.

As consumer behaviour changes, the retail industry is forced to compete accordingly in order to survive; either by cutting prices or through added value such as convenience, timesaving or customisation. Direct selling is meeting new market conditions in a rather progressive manner; adjusting the shopping experience to the consumer regarding timing, place, entertainment and personal approach. During recent years, the online activity among direct selling consultants has increased dramatically. Looking into the future, there is further potential in the current development of online social networks, which will become significant grounds for sales and recruitment activities.

Direct selling – in tune with time

In summary, today's way of life – with its advantages as well as limitations – has resulted in a change in consumer behaviour and an increased demand for timesaving services. Therefore, by addressing each household as a point of sale, combining entertainment and shopping and last but not least, using reliable connections as door openers to new clients, direct selling will keep growing, in tune with time.

> *At Oriflame, we're in the business of helping others. It's each and every employee's daily inspiration. We're here to help others fulfil their dreams and by doing so, we also fulfil our own. In moments of impossibility, we only see opportunity.*
>
> Jesper Martinsson
> Chief Operating Officer

Sources:

Why are we hot by Neil H Offen, President & CEO, Direct Selling Association (DSA), USA and *Handelns roll och direkthandelns möjligheter (Traditional retail vs the possibilities of direct selling)* by Fredrik Bergström, PhD & former CEO of Swedish Handelns Utredningsinstitut (HUI) - both from the book *Direct selling – a business opportunity in tune with time* (Evert Gummesson and Eva-Karin Ohlsson – Liber) Allers förlag 2008.

Retail index and the report *E-commerce manages the crisis*, Handelns utredningsinstitut, HUI (Swedish Retail Institute).

Oriflame provides great products and career opportunities for millions of people. Although the reasons for joining may vary among the many sales consultants in the 62 countries where Oriflame is represented, most of them agree that Oriflame offers attractive financial rewards as well as social benefits, i.e. the possibility to look great, make money and have fun.

Make money today and fulfil your dreams tomorrow™

Easy to join

Becoming a sales consultant is easy and requires no investments or long-term commitments. Sales consultants can make money the same day they join. After a modest fee has been paid, a starter kit is provided. Oriflame offers a wide portfolio of innovative Swedish quality products, inspired by nature and using the latest science, at affordable prices – all presented in powerful catalogues. Training in beauty and business is provided through the Oriflame University, most of which is free of charge. Oriflame offers a variety of training programmes for consultants, ranging from presentation techniques to product knowledge and training sessions in make-up techniques, etc.

Make money today

A sales consultant orders products at a reduced price level, consultant price, and sells to customers at catalogue price. Consultants, who invite others to join Oriflame and build a sales team, earn additional income on the team's sales. Sales consultant compensation is based on targeted sales volumes of the Oriflame products.

Fulfil your dreams tomorrow

For some people, becoming an Oriflame consultant can provide a way of supporting the family, while also fulfilling a career dream. For some Oriflame is a way to achieve a more flexible life, to make extra money or to extend one's social life. An increasingly important driver is the opportunity of personal development. Many consultants join Oriflame in order to purchase products at a discount for themselves and their family and then later discover that there is an interesting opportunity to do more with Oriflame. The flexibility of the system means that consultants decide for themselves what they want to achieve by joining Oriflame. Whether it's to sell cosmetics on a hobby basis, to earn extra pocket money or to work part or full time, is entirely up to the consultant.

Encouragement and motivation

Oriflame has a well-developed system for encouraging sales consultants. An important part of this is the Success Plan, according to which sales consultants are rewarded for their own sales, as well as those of any consultant within their network. This provides sales consultants with an incentive to maximise network sales and to enlist new consultants to

grow the scope of their network. Apart from the financial rewards, successful sales consultants and network builders are also rewarded with Senior Manager and Director titles depending on their achievements.

Increasingly important means of encouragement are the cost-free training programmes and seminars that Oriflame offers. Every year, Oriflame hosts three major international conferences in exotic locations. The conferences are an integral part of the overall Success Plan where a title has to be met in combination with reaching a certain qualification each year. At the conferences, the Company has an opportunity to launch key initiatives for the leaders and have product experts presenting the science behind the products. An equally important aspect is the venue that the conferences provide for leaders to exchange ideas with top management and between themselves. Last year's Gold Conference in Rome hosted a record number of 4,800 attendees from 58 countries. Oriflame has been awarded several times for these extraordinary events.

Support tools

Sales consultants are offered a number of tools to help them succeed, coordinated in SARPIO – Sales and Recruitment Processes in Oriflame. SARPIO is the global platform for processes, training and communication. It has been developed in order to offer consultants support in developing and managing themselves and their businesses, while ensuring that they convey the Oriflame brand in a consistent way.

In 2009, Oriflame launched a new management tool for the sales force in most markets. This tool helps sales consultants to track performance of their network and identify action areas that can improve business effectiveness. It also improves communication with the sales force.

During the past years the online activity among the Oriflame sales consultants has increased dramatically. Around 50 percent of the sales force uses the online services and more than half of all orders are placed through the online ordering. Moreover, online social networks are becoming significant grounds for sales and recruitment activities. As time spent online increases, the sales force is provided with new tools that allow them to continue their business activity in this environment. During the year Oriflame conducted a pilot rollout of an e-learning concept to coach and support the sales force in their selling and recruiting activities. The response has been very positive and the intention is to continue the e-learning initiative globally going forward.

SALES COMPENSATION

- Immediate profit – Sales consultants buy products from Oriflame at a discount on the catalogue price and earn a 30-percent mark-up when selling them on to their consumers.
- Volume discounts – Sales consultants can earn an additional 3–21 percent 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 achievements related to leadership development, training and motivation of the people they have recruited

My day-to-day activities vary a lot. On weekdays I meet potential consultants and talk about Oriflame and the opportunities they have working for Oriflame. On the weekends I hold meetings for my consultants where we discuss products, and look at material and the catalogues.

Oksana Nechipurenko,
Sapphire Director, Russia

The Oriflame catalogues are literally shops without walls, providing our consultants with their most important and tangible sales tool – making the whole difference between good sales and great sales.

Creating the ultimate shopping experience

The ultimate shopping experience

By providing the ultimate shopping experience to consumers, the Oriflame catalogue supports the ultimate business opportunity to its consultants. The stronger the consumer offer, the greater the potential to sell and grow the business. By constantly creating exciting new catalogues, Oriflame is also providing the motivation and confidence to its consultants to actively show the latest catalogue to existing and potential new customers.

A unique challenge

A new Oriflame catalogue is distributed every three to four weeks offering each sales consultant a new marketing opportunity and each customer a new shopping experience at a preferred time and place. This means between 12 and 17 editions per year, depending on local market conditions. Each edition is published in four regional versions, in 62 countries – and in 35 languages. Great efforts are made to differentiate the catalogues to make sure that they offer new and exciting shopping experiences. Each edition has its own theme and includes a display of existing Oriflame products as well as new offers and seasonal promotions, altogether presenting around 500 products. It is hard to imagine the amount of thought, effort, and strategy behind each edition. It is an enormous publication even by global standards – and the whole production process takes place under Oriflame's roof.

Creating a catalogue

Creating a catalogue is about much more than filling blank pages with glossy advertisements. The outline of a new catalogue begins more than one year prior to publication. The regional planning teams create a catalogue plan that includes ideas for the themes, what products will be shown in each catalogue, what page they will appear on and what the offers will be. The process involves a lot of analysis of current and historic results together with market trends, but also creativity in developing new exciting ideas and promotions. The regional plans are communicated and discussed with local markets – an important process that optimises the combination of product and price in every catalogue. The completed plan is then formally briefed to the region's catalogue creation team. There are constant updates and changes along the way

in response to consumer needs and local market conditions, so it is crucial for both planning and creative teams to be flexible and responsive.

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

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

A creative career opportunity

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

I have a network of 150 consultants, so a typical day for me consists of organising workshops, beauty sessions and day events for my consultants. I also set aside time to do follow-ups with everyone and send out information to those clients and consultants that live far away. I combine my sales work with a teaching job at the university where I give a morning class in English. The rest of my time goes to my family.

María Jesus Pinar,
Senior District Manager, Spain

From a consumer perspective our catalogue represents everything that is Oriflame. The passion and dedication that goes into the creation of every edition is a reflection of our passion to create the ultimate catalogue shopping experience.

Stephen Syrett,
Catalogue & Forecasting Director,
Sweden

Striving to become the number one beauty company selling direct, Oriflame needs to become the number one workplace. Oriflame presents a stimulating, creative and dynamic working environment that empowers people to grow as people and professionals, whether they are employees or independent sales consultants. The greatest challenge is to preserve core values and a genuine sense of entrepreneurship, as Oriflame grows and requires more structure.

Striving to become the number one workplace

Promoting entrepreneurship, creativity and core values...

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 doing it alone.

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

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

Attract, develop and retain

Oriflame has 3.2 million independent sales consultants in 62 countries. In addition to this the Company has over 8,000 employees located in offices all over the world. To retain these people and to be able to attract outstanding professionals, Oriflame must offer motivation and potential for development. The Company presents a stimulating and entrepreneurial working environment that empowers people to grow as people and professionals, whether they are employees or independent sales consultants.

Oriflame consultants get the chance to run their own company – setting their own targets, planning income and working hours and sometimes even changing their lives. Oriflame's employees develop both in their day-to-day work and in Oriflame Academy, a unique training program created to support and strengthen Oriflame's culture. Oriflame has also implemented a new strategy for compensation and benefits. In order to find the right person for each position, a performance management and an internal succession planning system have been adopted.

Corporate culture

Oriflame is a fast growing company, with ambitions to constantly attract new people and add new markets to its world. The people behind Oriflame are the reason for the Company's success. But how does one run a company with more than three million consultants all over the world who speak different languages and hold different values, religious beliefs and political convictions? The key is the corporate 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. Oriflame's culture is based on entrepeneurship as well as respect for and belief in peoples' capability.

The Oriflame Way

Oriflame wants to ensure that all employees understand the core values and operating principles of the Oriflame culture.

The Oriflame Way is a one-day seminar presented by senior manager trained for this purpose. The seminar is given in English, Russian and Spanish to fully reach its target audience. To date, 1,380 employees have attended the Oriflame Way and the CEO and President Magnus Brännström has personally conducted 50 of these training sessions, as it is a highly prioritised matter in the Company.

Diversity as a source of our strength

Embracing and actively working to sustain diversity, Oriflame aspires to be a company that reflects the globally diverse audience that we serve. In addition to hiring the best talent, Oriflame believes that diversity of gender, nationalities and cultures leads to the creation of better perspectives, ideas and products. The diversity of employees and partners serves as the foundation of better service for customers and stakeholders all over the world.

Oriflame takes pride in offering the people who join the Company an opportunity to work abroad in one of the many countries where we have a presence. Oriflame has offices in more than 60 countries, each of which is a venue for diversity and common experience, not least the Stockholm office where people from more than 30 countries work together towards the same goals – a truly unique working environment.

Oriflame hosts three major international conferences every year in various, carefully chosen locations. The conferences provide an opportunity for leaders to exchange experience and ideas with top management and colleagues from all over the world. Last year´s Gold Conference in Rome hosted a record number of 4,800 attendees from 58 markets.

I think that the "fun" element is thoroughly incorporated in our corporate culture, and it helps us to increase team-building and -spirit. It's especially visible during our events when all managers and employees meet in one place. We don't only have fun but also learn from each other, get to know our weak and strong points and help one another to overcome obstacles.

Zaneta Gajek,
PR & Media Manager, Poland

A typical day at Oriflame can range from a web conference with our development team in the Czech Republic to creating a design for an upcoming product launch campaign, or supporting one of our Latin American Webmasters with design advice for their next recruitment campaign

Annica Wallin,
Online Art Director

... and establishing long-term human resource processes for future growth

Gender Equality

Oriflame always strives for an even distribution of gender and ethnical background within all categories of employees at all levels. All employees should be evaluated based on the same basic principles; performance, experience and potential. Our ambition is that the work environment at Oriflame shall be suitable for all employees, men as well as women, who should find it possible to combine work with the responsibility of having and raising children.

When recruiting, Oriflame always wants to review both female and male candidates. According to statistics for the global top 200, the Company is close to a gender distribution of 60/40 in favour of men. Looking forward, this gives the Company a very good base for recruiting women into top management. Oriflame always strives to secure equal pay for equal work and performance benchmarked against external market data. A salary mapping comparing wages has been conducted between men and women at the Stockholm office and it shows the Company is compliant with both law and policy for equal opportunities when it comes to differentiating between women and men based on gender.

In 2009, a global policy for equal opportunities was published together with two target actions for gender equality – A mentoring program was implemented for top women in the Company and a program aimed at women with leadership potential was initiated and will be introduced as a topic at Oriflame Academy.

The right people on the bus

In order to grow and reach the corporate vision, we have to drive and focus on Talent Management processes in the Company. The concept "Having the right people on the bus" was launched in 2009. The concept consists of two parts. The first part involves presentation and training in the crucial processes for attracting, recruiting, developing and retaining key people. The second part focuses on forming cost-efficient and effective strategies, actions and responsibilities for "People and Culture" together with management. The purpose of the concept is

to establish a structured framework, an explicit ownership and a sharp agenda in each Region/Market/Department in Oriflame.

The Oriflame Academy

Oriflame's most important training programmes for managers are found in Oriflame Academy, implemented in 2006. The internal three-step development programme for managers has been created to support and strengthen Oriflame's culture, increasing integration, strategic understanding as well as leadership and management skills.

Global Induction Programme

In 2009, a new global introduction process was implemented as a way of welcoming new hires to Oriflame. The process begins before a new employee arrives and lasts up to a year or longer after the employee is in place. The purpose of the process is to ensure that all new hires get up to full speed as quickly and smoothly as possible, feeling that they made the right choice when they decided to join Oriflame.

The introduction focuses on introducing the new hire to his/her role, explaining how it relates to Oriflame's overall functions, activities and vision. The process also involves setting performance targets, as well as enrolling the new hire in the Oriflame Way and Oriflame Academy training.

An illustration of Oriflame's corporate culture is the practice of rewarding achievements and empowering employees and consultants through recognition of their efforts, presence and contribution to the Company – I believe it makes any person grow and achieve more. Seeing a consultant on stage for the first time and hearing them describe how their self-motivation, self-respect and self-esteem have grown as a result of joining Oriflame, is a true reward for our efforts.

Erik Björkman,
Future Manager, Ukraine

Joining Oriflame I never expected such incredible focus on the individual – the faith in everyone's ability to succeed, whether they are employees or consultants. The amount of motivation, inspiration, training and education provided is staggering.

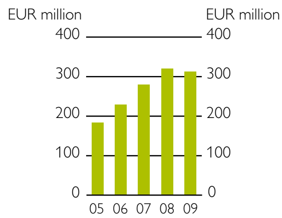
Fredrik Widell,
Regional Director, India

The product overview

CATEGORIES	EXAMPLES OF TOP SELLERS IN 2009		
SKIN CARE	Ecollagen 4 week treatment		
COLOUR COSMETICS	Oriflame Beauty Hydra Colour Lipstick		
FRAGRANCES	Grace Eau de Toilette		
PERSONAL & HAIR CARE	HairX Volume Boost		
ACCESSORIES & WELLNESS	Voyage Voyage Accessories		

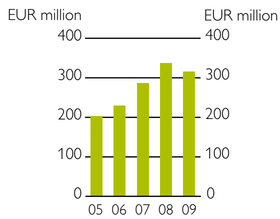
	SALES CONTRIBUTION	SALES GROWTH	DEVELOPMENT IN 2009


25%



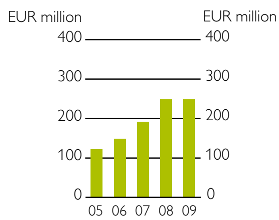
Skin Care grew by 11 percent in local currency and decreased by 2 percent in Euro during the year. Sales were driven by the successful launches of Time Reversing InTense Cream and Tender Care Caramel. The heritage brand Tender Care is still Oriflame's number one product in terms of sales and units in the Skin Care category.


25%

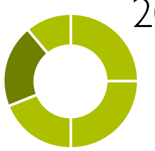


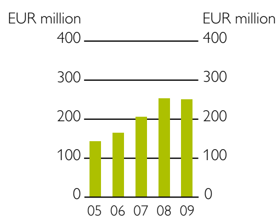
Colour Cosmetics grew by 8 percent in local currency and decreased by 6 percent in Euro. The core concepts continued to perform well. The Powershine Lipstick and Wonderlash Mascara within the middle price range, as well as the high price range Giordani Gold brand, developed strongly in spite of the economic downturn.


19%



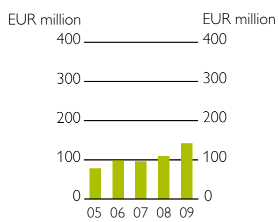
Fragrance continued to perform strongly in 2009. Sales grew by 16 percent in local currency and was stable in Euro terms. During the year Oriflame launched the female fragrance Grace featuring Eva Herzigova and the men's fragrances Giordani Men and Glacier.


20%



Personal & Hair Care grew by 15 percent in local currency and decreased by 1 percent in Euro. The best-sellers were more value-for-money products. The launch of HairX, a new hair care range, boosted sales in all regions. But high price range brands also sold well.


11%



The Accessories & Wellness categories also showed large growth in 2009 with 27 percent increase in local currency resp. 10 percent in Euro thanks to more trendy accessories and successful take-off of the new Wellness category. During the year, Oriflame began collaborating with a group of Swedish designers to create more fashion collections of accessory items.

Oriflame offers a wide product portfolio affordable for the many people combining the wisdom of nature with the best of science. The key words are natural, progressive and ethical. This is the firm foundation of the brand. It is also what distinguishes Oriflame from its competitors, what makes the brand unique – and the key to continued success.

An attractive product offering

An attractive beauty offering

Over the years Oriflame, has launched thousands of products conveying the Oriflame product philosophy – combining the wisdom of nature with the best of science – providing a wide portfolio affordable for the many people. Oriflame's products are developed using cutting-edge technology and products are manufactured according to the highest quality standards. Oriflame Cosmetics offers over 900 cosmetic products at any given time, more than a third of which are newly introduced each year.

More value for money

At the first sign of an economic slowdown in 2008, Oriflame started adapting the catalogue offers promoting more value-for-money products. This had a beneficial impact on overall sales in 2009 and led to a positive product mix for different target groups and people with varying incomes. At this time, the Company created products that were on trend for 2009. At the same time, Oriflame increased prices by approximately 5 percent on average.

Categories

Skin Care

The Skin Care category is usually the most sensitive product category in an economic downturn. Customers tend to switch to middle and low-range product lines, putting that little extra money into colour cosmetics. Oriflame presented a strong portfolio within the lower price range, generating good results and a double-digit growth through the brands *Essentials* and *Pure Nature*. Within the middle price range, the brand *Optimal* was also doing very well. In the higher price range, we saw that the success of the *Diamond Cream* continued, allowing us to strengthen this prestigious range. *Lift Expert* was expanded with the launch of *Lift Expert Ampoules*, allowing the Company to strengthen and progress this range.

Personal and Hair Care

In the Personal and Hair Care category, the best-sellers were more value-for-money products. The launch of *Discover*, a new bath and shower collection in the lower price range, boosted sales in all regions. At the same time, a good perception of established products within the foot and hand care sector allowed for price increases within the sub-ranges. The luxurious body care range *Milk & Honey Gold* sold well above expectations despite the recession. Oriflame successfully launched *HairX*, a full range of high-performance hair care products supported by Swedish hair experts Corinne & Friends.

Fragrance

Both male and female fragrances performed strongly throughout the year. Male fragrances had an exceptional development as a result of the launch of *Excite*, a new male fragrance within the middle price range, endorsed by Dima Bilan, the Russian winner of the Eurovision Song Contest 2008. To further strengthen the Fragrance category Oriflame successfully launched a sophisticated male fragrance within the *Giordani brand* which, along with *S8 Night,* sold well in all regions. Other successful launches included *Amber Elixir* for women and *Deep Impact* for men.

The main attraction in fragrance for the

year was the successful launch within the masstige range, *Grace*. It was presented in an award-winning curvaceous glass bottle with vintage pump and hose – endorsed by internationally renowned super model Eva Herzigovà.

Colour Cosmetics

The core concepts within Colour Cosmetics continued to perform well. The *Powershine Lipstick* and *Wonderlash Mascara* within the middle price range both developed strongly. Another great performer in spite of the economic downturn was the high price range *Giordani Gold* brand.

Oriflame was proud to announce the recruitment of leading celebrity make-up artist Jonas Wramell. Jonas has drawn on his 12 years of experience in the beauty industry to help develop and launch future Oriflame products and collections within the Oriflame Beauty brand. This brand is supported by an advertising campaign on TV, print, internet and outdoor in Oriflame's largest markets.

Wellness

The dietary supplement category Wellness by Oriflame is the result of more than eight years of extensive research and studies by leading Swedish scientists. The concept - first launched in a few markets during the autumn of 2008 - has been rolled out further during 2009. It's currently launched in 37 markets. The products have been very well received and sales results are in line with expectations. Oriflame is well-positioned to capture growth as the nutritional supplements industry grows and as beauty from within emerges as a global trend. The Wellness concept makes the Company attractive to a wider range of potential consultants who can offer a new lifestyle to their customers with hands-on guidelines on how to live a healthier life. The Wellness concept strengthens Oriflame's income opportunity and total product offer with the long-term goal of becoming one of the leaders in our markets in the direct-selling dietary supplements industry.

Accessories

Accessories developed strongly thanks to a more trendy collection with better quality and more support items. Oriflame offers a wide selection of accessories from hairbrushes to handbags, sunglasses to sandals, toothbrushes to teddy bears, make-up bags to manicure sets, sarongs to scarves, candles to combs – not to mention belts, pedicure sets, towels, bracelets, necklaces, earrings, toilet bags and seasonal gifts. In 2009, Oriflame also began collaborating with a group of Swedish designers to create new fashion collections of accessory items.

> *One of the greatest challenges is to stay innovative in spite of the frequent launches. We launch hundreds of new products annually, requiring a high degree of creativity and ability to transform the numerous ideas into competitive products.*
>
> Jolanta Pastor, Vice President Product Marketing

Oriflame has over 40 years experience in producing beauty products, combining the best natural ingredients with the latest scientific research. The accumulated knowledge and experience has been gathered into one dedicated Research & Development team which is in two locations, Dublin, Ireland and Stockholm, Sweden.

Research & Development

From idea to launch

The process from idea to launch takes several years, involving valuable time and resources through the stages of R&D, manufacturing, marketing and distribution. Thus, being at the forefront of trends and needs is essential to deliver a strong offering to the market on time. It is the only way to gain new customers, and to make old ones' remain loyal to the brand.

Oriflame's customers come from various parts of the world; have different habits, income and needs. To create attractive offers for such a heterogenic customer base requires a wide product range, high launching pace and proactive reaction to new trends. It is a constant challenge to stay on top of competition and remain innovative through the constant launches.

Ideas originate from various sources such as international fairs and exhibitions, global trend reports, research projects and focus groups. A strong team of brand managers representing all five product categories is continuously monitoring trends, needs and new launches in order to stay in the loop, maintain competitive strength and gain market shares.

Beauty research

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

All together, the Research & Development function employs over a hundred scientists and technical experts, covering many scientific disciplines including formulation science, skin research, clinical testing, process development, packaging technology, microbiology, toxicology, environmental science, patent support, and global regulatory affairs.

Dublin

In Dublin, the focus is on product development. Experts develop and clinically test high-performance formulations, while providing technical support in the areas

of regulatory affairs, product safety and industrialisation to the manufacturing facilities. These projects deliver technology and innovative new products into the product categories of skin care, colour, fragrance and personal care.

Stockholm

In Stockholm, at the Skin Research Institute, our scientists work at a biological level aimed at generating Oriflame's next portfolio of unique technologies and active ingredients which will be incorporated into the future generation of products.

Ensuring the highest standard

Oriflame's core competencies embrace a wide range of technologies and products, with the accent placed squarely on delivering innovative, high performance formulations with proven scientific consumer benefits. The products comply with the most stringent international regulatory requirements, and are extensively tested to ensure optimum safety, efficiency and quality as well as ethical and environmental integrity. No Oriflame product has ever been tested on animals.

Having an in-house Research and Development centre provides Oriflame greater flexibility over product development in line with the Company's natural Swedish heritage, ensuring delivery of the highest standard product in the shortest possible time.

> *Working at the Skin Research Institute, I'm part of an experienced team striving to spearhead research and become a key player in the world of cosmetic research. Our challenge is to create newness, strengthen Oriflame's offer, enhancing the visibility of the technology and originality behind every product.*
>
> Dr. Alain Mavon,
> Skin Delivery Director

> *The best thing about working for Oriflame is the dynamism and creativity that permeates the R&D centre, as well as the entire Company. It's an example of how the Company links the heritage of the natural Swedish with the technology and innovation.*
>
> Dr. Natasha Williams O'Hanlon,
> Regulatory Manager, Policies and
> Technical Information

Global Supply is the manufacturing, sourcing and logistics part of Oriflame, enabling products to be sourced and delivered according to promise to the consultants and customers. Supply planning plans more than 600 million units annually from more than 50 suppliers worldwide and the distribution planning department plans deliveries globally to 62 markets in four regions.

Global Supply

GLOBAL SUPPLY STRATEGY

- Cut lead-times and increase flexibility in the end-to-end supply chain
- Better align supply and sales in the Group, sourcing locally where appropriate
- Build capacity to support growth and increase in-house manufacturing
- Make the Oriflame experience easy, reliable and friendly for the consultants
- Assuring consistent and high quality products no matter place of manufacture

The Oriflame "Business Opportunity Concept" is built on four Strategic Cornerstones; Brands & Products, Network Marketing, World Class Service and People & Culture. The Oriflame supply chain organization is one of the main pillars of the strategic cornerstone; "World Class Service". It is the ultimate objective of the supply chain organization to deliver an industry leading service to the Oriflame sales organization, to the consultants and to the end customers.

Supply Chain and sourcing

The Product Fulfilment Project, Oriflame's review of its entire supply chain, was initiated in 2006 and implementation is ongoing. The main task is to make the Oriflame experience easy, reliable and friendly for the consultants by better aligning supply and sales in the Group. The strategy involves cutting lead-times and increasing flexibility in the end-to-end supply chain, as well as building capacity to support growth, increasing in-house manufacturing and sourcing locally where appropriate. The target is to have a base of flexible, efficient and quality-orientated suppliers who ensure product availability, quality and claims, delivery times, delivery reliability and accuracy in all of Oriflame's markets.

A new operating platform

In recent years, Oriflame has implemented a new operating platform, locating Oriflame's marketing, catalogue and supply functions to Stockholm, Sweden and expanding central and regional logistic hubs in Warsaw, Poland and Moscow, Russia. In 2009 the integration of the Baltic markets into the Warsaw Group Distribution Centre was finalized. During the year a new supply chain management system was implemented, providing higher transparency and better responsiveness throughout the planning cycle.

The roll-out to Oriflame markets will continue as planned during 2010. A new Group Distribution Centre will be established in Budapest serving neighbouring countries. By consolidating the inventory closer to the consultants and by eliminating intermediate warehouses in the various markets, the lead times will be shortened, product availability will be improved and the inventory will be better controlled and managed.

Manufacturing and logistics

Oriflame's products are manufactured both in-house and by various subcontractors with expertise in specific product areas. Oriflame's owns five manufacturing units based in Poland, Sweden, India,

China and Russia. These factories focus primarily on the production of Skin Care, Fragrances, Personal and Hair Care and Colour Cosmetics- areas in which there are sufficient volumes to achieve economies of scale. Oriflame is continuously exploring new sourcing opportunities closer to its main markets. In 2009, Oriflame has successfully ramped up the production at its new Moscow site and the year before, Oriflame initiated bottling and packaging of fragrance products in Ukraine. Oriflame is also continuously striving to increase energy efficiency. The Swedish facility is now only using clean hydroelectric power and minimizing energy needs through the use of heat pumps.

Quality assurance

Oriflame's quality assurance team works both with in-house manufacturing operations and subcontracted suppliers to achieve consistent adherence to the high quality, safety and ethical standards set by the Company, no matter the location of the manufacturing site. Oriflame maintains a policy of global compliance for all its products to ensure conformity with the highest market standards. Examples include adherence to stringent water quality standards and a strict control over other raw materials used in production.

Code of Practice

During 2009 Oriflame integrated the new ISO Cosmetic Good Manufacturing Practice (GMP) Standard with the Company's Code of Practice. This new ISO standard gives guidelines for the production, control, storage and shipment of cosmetic products. All Oriflame suppliers are audited on a regular basis to ensure compliance with the Code of Practice and the Code of Ethics. Oriflame carries out Corporate Social Responsibility (CSR) & Quality Audits on all accessories suppliers in China, to ensure that they not only meet Quality standards, but that they also comply with the Company's Ethical Policies. This is an extra layer of audit, in addition to the frequent audits carried out by Oriflame's sourcing and procurement partners.

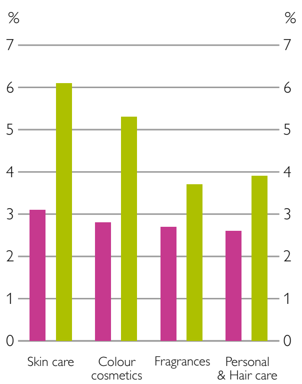
> *Working at Oriflame I meet new challenges on a daily basis. Whether I'm dealing with delivery problems or actual earthquakes, I am always striving to exceed expectations and provide word-class service. To me, that's the ultimate challenge.*
>
> Sanjay Pushkarna,
> Operations Director, India

> *Supply Chain is a transversal function connecting all departments at Oriflame. Our role is to coordinate the various operating processes, reaching from R&D to manufacturing and distribution, a difficult but stimulating task offering new challenges on a daily basis.*
>
> Didier Jourdan,
> Vice president Global Planning

The cosmetics market has seen consumers trading down from premium to masstige products, in search of savvy ways to remain fashionable and indulge themselves in an affordable way. The challenge for many companies is to maintain consumer attractiveness by innovating so to remain relevant to consumers.

Market

Forecast market growth, CAGR 2009 – 2014



World
Oriflame markets

Euromonitor IMS 2009

*The data for Personal and Hair Care growth is calculated as the average growth for the categories Beauty and Personal Care, Baby Care, Bath and Shower, Deodorants, Hair Care, Oral care and Sun Care.

General Outlook

In total, the market for cosmetics, personal and hair care increased by 3.7 percent in 2009 amounting to EUR 249.7 billion. The market growth in many of Oriflame's key markets was weak as a result of the global recession. The recession has taken hold leading to record low levels of consumers' confidence. However, cosmetics are usually seen as more resistant than other products to an economic downturn, as women turn to cosmetics for a source of affordable cheer. Russia alone was up by 5.3 percent to a value of EUR 7.6 billion while average growth rate in last five years was 12.3 percent. Turkey increased by 9.3 percent to EUR 1.9 billion. Czech Republic decreased by 1.6 percent and Portugal increased by 1.6 percent. Some of the best performing markets were seen in Asia, with India growing by 12.3 percent and China by 8.7 percent. Growth in Mexico was 6.9 percent in 2009.

In most markets of Central and Eastern Europe, Oriflame enjoys a leading position, being either the largest or the second largest cosmetics company among direct sellers. In these and other emerging markets, direct selling is well suited, and it generally takes longer for cosmetic companies selling through retail to get a foothold. In difficult times as in 2009, direct selling companies normally have a good opportunity to gain market share in the overall market.

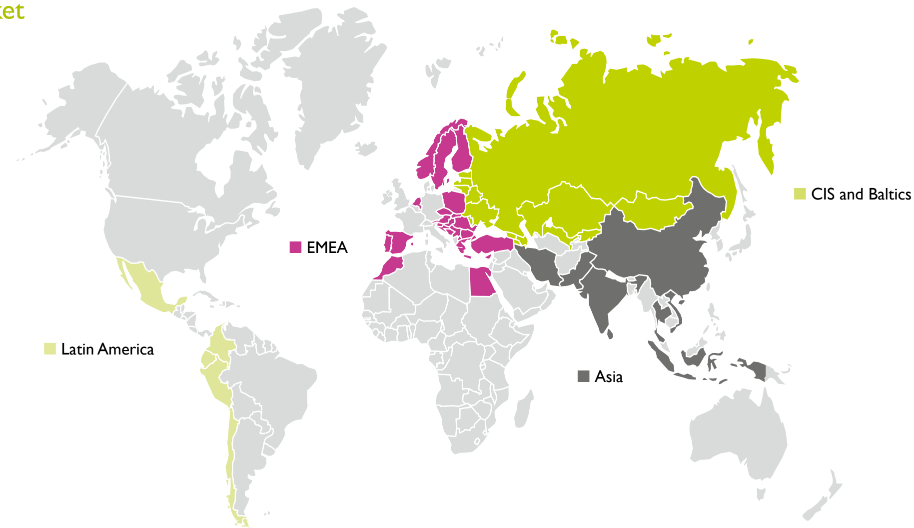
Growth of the cosmetics markets is expected to pick up in 2010 and for the next five-year period, the global market for cosmetics and toiletries is forecasted to grow by an annual average of 2.7 percent at constant prices in the 2009 – 2014 period reaching EUR 285.3 billion in 2014. Skin care is expected to be the fastest growing product category with a 6.1 percent annual increase on average between 2009 – 2014 in the markets were Oriflame is present.

Competitors

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

Some of the largest competitors to Oriflame in Eastern Europe are the global manufacturers Procter & Gamble, L'Oreal, Beiersdorf and Unilever, while the Russian company Kalina has been very successful in key markets such as Russia, Ukraine and Kazakhstan. The two largest cosmetics companies selling direct in Eastern Europe, are by a wide margin Oriflame and Avon, but there are many other direct sellers that compete for consultants. Russian Faberlic and the Ameri-

Oriflame's market



can direct sellers Mary Kay and Amway are some of the companies that have built a large sales force of consultants during recent years. Direct sales as a channel is estimated to have more than 20 percent of the total C&T market in Eastern Europe. This is higher than the global average of approximately 11 percent.

In Latin America, Oriflame is still a small player in the cosmetics market. Avon has been very successful in this region as well as many local companies, such as Natura, Esika, Yanbal and Jafra. Direct sales is very popular in this region and depending on country, it is estimated that this channel has taken about 30 percent of the total C&T market.

According to Euromonitor, the largest cosmetics manufacturers in Oriflame's Asian markets are Unilever, Procter & Gamble and L'Oreal. Direct sales has a significant share of the market in China, with Amway, Avon and Mary Kay being the largest direct sellers, while Amway and Oriflame have the largest market share among direct sellers in Indonesia and India.

Regional Highlights

CIS & Baltics

Local currency sales in 2009 increased by 18 percent as a result of a 25 percent increase in the average size of the sales force partly offset by a 7 percent productivity decrease compared to last year. Euro sales decreased by 4 percent to EUR 725.0m (759.1m) and closing sales force was up by 22 percent to 2.0m consultants. The strongest performing markets were Ukraine and Azerbaijan. Sales growth in Russia was 16 percent in local currency during the year. Operating margins were 14.7 percent (19.4) resulting in an operating profit of EUR 106.8 (147.5m).

EMEA

Local currency sales in 2009 increased by 8 percent as a result of a 13 percent increase in the average size of the sales force partly offset by a 5 percent productivity decrease compared to last year. Euro sales was up by 1 percent to EUR 395.4m (390.3m) and closing sales force was up by 12 percent to 0.8 million consultants. The strongest performing markets were Turkey and Morocco. Operating margins were 14.9 percent (18.3) resulting in an operating profit of EUR 59.1 (71.4m).

Asia

Local currency sales in 2009 increased by 40 percent as a result of a 22 percent increase in the average size of the sales force and an 18 percent productivity increase compared to 2008. Euro sales were up by 37 percent to EUR 112.9m (82.4) and closing sales force was up by 17 percent to 457,100 consultants. The strongest performing markets were Iran and China. Operating margins were 8.1 percent (4.0) resulting in an operating profit of EUR 9.1 (3.3m).

Latin America

Local currency sales in 2009 increased by 12 percent as a result of a 13 percent increase in the average size of the sales force partly offset by a 1 percent productivity decrease compared to last year. Euro sales were up by 7 percent to EUR 62.5m (58.5m) and closing sales force was up by 9 percent to 136,300 consultants. The strongest performing markets were Mexico and Colombia. Operating margins were 2.1 percent (8.9) resulting in an operating profit of EUR 1.3 (5.2m).

> *What distinguishes Oriflame is the culture of putting people above everything else. This is truly a people business and doing well for the people in the Company means doing well for the brand and the business.*
>
> Priyanka Verma,
> Public Relations, India

At Oriflame, we believe that companies have the same moral responsibilities as individuals. This belief has guided our operations for over 40 years, and continues to shape the Company's social and environmental responsibility. It is about fulfilling dreams in a natural, progressive and ethical way and it is particularly important for an international company like Oriflame, which operates in many different countries and cultures.

CSR – a natural part of our business model

Being a good corporate citizen…

Oriflame's view of Corporate Social Responsibility (CSR) encompasses applying a responsible business model, which empowers people and provides them with tools to enrich their lives. Becoming a sales consultant for Oriflame provides financial opportunities from the first day – but never any risk. Apart from contributing to the communities in which the Company operates by providing employment and business opportunities, Oriflame also supports charities on a local, regional and global level. In addition, the Company continuously strives to minimise negative impact on the environment in all areas of its operations.

Oriflame is committed to the ten principles of the United Nations Global Compact. These apply to the areas of human rights, labour standards, the environment and anti-corruption. The Company worked during the year to integrate these principles into the Code of Conduct and to ensure that they permeate all aspects of the business.

Oriflame strives to make sure that its suppliers are committed to operating in line with policies and requirements regarding wages, working hours, child labour, etc. Oriflame manufactures 46 percent of all products in-house, five internal factories produce skincare creams and liquids, foundations, mascaras, lipsticks, personal care and haircare products as well as fragrances. The remaining part of the product range, which includes cosmetics, accessories and food supplements is produced by external suppliers in Europe, the United States and Asia, both for finished products and accessories.

In 2008, Oriflame launched an initiative to review the audit process used for accessories suppliers. In addition to all the audits conducted by the company's sourcing partners, Oriflame has now implemented an additional layer of audit and oversight to ensure a robust audit process.

Charity initiatives

Oriflame is a grass roots company, which means that it is provided with a unique insight into the lives, conditions and needs of people around the world. Oriflame has a long tradition of supporting projects aimed at improving living conditions for the underprivileged in the countries where the Company operates. The purpose of these initiatives is primarily to defend the rights of children.

The various charity activities in which Oriflame is involved include funding, product donations and the time and energy of employees spent in numerous social causes. One of these is the World Childhood Foundation under the patronage of HM Queen Silvia of Sweden, which Oriflame co-founded in 1999. Another is the Af Jochnick Foundation that continues to provide grants to local charities. Their objective is to assist 100,000 children with education over a period of ten years to ensure their survival, security and progress. Meanwhile, each day in communities around the globe, many of Oriflame's employees and consultants are committing their time to support charitable initiatives.

Oriflame Foundation

Oriflame is proud of all good work, but realise that as the business continues to grow and the Oriflame brand becomes more recognised around the world, there is a need to better coordinate, support, and ultimately increase the charitable work undertaken across our markets. The decision was therefore taken during 2009 to set in motion a process designed to enhance and expand Oriflame's chari-

…and contributing to the communities where we operate

table giving program, under the global framework of the Oriflame Foundation.

Oriflame Foundation's mission is providing help to children and young women through a wide range of educational initiatives so that they can have the opportunity to change their lives for the better and are empowered to turn their dreams into reality. By offering a selection of charity products and accessories, the aim is to raise one million euros during the Foundation's first year, and to double this amount during the following two years. In order to create greater impact and focus for the charitable efforts in a more determined and sustainable way, Oriflame will partner with a global NGO that supports focus and can assist the Company in establishing charity initiatives in all markets around the world.

A few of Oriflame's projects

Support for foster care children in Poland

Oriflame Poland has partnered with the Przyjaciółka Foundation, an organisation that supports children from foster homes and raises awareness around foster care issues. Over 50,000 children are in foster care in Poland, and through a project named "a KuKu" (peek-a-boo), Oriflame is helping to restore a sense of normality to some of these childrens' lives. The Polish consultants and employees support a KuKu in various ways, from taking foster children to school to helping them to develop their hobbies and interests.

Social rehabilitation for teenagers in Latvia

Oriflame is a proud contributor to The Livslust Foundation, a charity providing essential vocational education and social rehabilitation to disadvantaged teenagers. In Latvia, its sister organisation Dzīvesprieks helps needy youngsters to complete their education and learn the necessary skills that will enable them to lead independent lives. Oriflame Scholarships make it possible for Dzīvesprieks students to improve their prospects by continuing their high school studies or starting their own businesses.

Education for girls in Turkey

Oriflame wants to help girls in Turkey that are growing up in poor families, with parents who are unable to send their daughters to school and instead encourage them to marry at a very young age. Oriflame Turkey has therefore partnered with the Association in Support of Contemporary Living (ASCL) to help young girls to complete their secondary education, providing them with opportunities they would otherwise be denied. Under Oriflame's Contemporary Girls initiative, 500 young girls are being supported throughout the entire course of their secondary school studies, from 2005 until 2011. At the end of the first year, 459 girls passed their exams and 156 were included in the honour list.

> *We have to increase focus on all the charity activities that are being carried out in Oriflame's markets, providing children and young women with education so they can be empowered to fulfil their dreams. Our business mission is to fulfil dreams – and the same goes for our charity work.*
>
> Nilgun Carlson, Corporate Communications Manager

…and being aware of our impact on the environment

Acting with responsibility...

For 40 years, Oriflame has been reinforcing that what distinguishes the Company from its competitors is the Swedish aspect of the brand, symbolised by the words natural, progressive and ethical.

In 2009, Oriflame has restructured its environmental organization, highlighting the importance placed on this aspect of the business. A Senior Advisor on Environmental Sustainability has been appointed. This person reports directly to the CEO and works closely with the existing CSR organization where environmental concerns are considered at all levels and in all parts of the organization.

During the past year Oriflame has conducted a Life Cycle Assessment of the Company's operations. The analysis takes all phases of the life cycle into account, from raw material production to disposal, with the main focus on the carbon footprint of the Company, i.e. the climate impact. The goal has been to map the environmental impact across Oriflame's value chain in order to identify key areas of improvement as well as areas of best practice. The results from this study will act as the foundation for how environmental concerns are managed going forward. They are currently being used to set goals and identify actions that will reduce environmental impact in an informed, efficient and responsible manner.

...when formulating

When formulating new products, Oriflame makes a point of striving to use natural ingredients that are in line with the Company's Environmental Policies and are not harmful to the environment. All primary surfactants and preservatives have a good biodegradability profile. Scientific reports on environmental issues are continuously being monitored to ensure that action can be taken to replace suspect ingredients or packaging materials. Oriflame was one of the first companies to utilise plant extracts in skin care products and has always tried to optimise the use of ingredients from renewable plant sources.

Oriflame has strong animal welfare policies. No Oriflame products contain ingredients which cause suffering to animals. Oriflame products have never been tested on animals.

Consumer safety has always been considered a top priority for Oriflame and the Company has very strict policies for ingredient selection, formulation and safety testing. All Oriflame cosmetic products are fully compliant with the latest European and other international regulations. All cosmetic products are manufactured in line with the international guidelines on Good Manufacturing Practices for cosmetics.

... when manufacturing

At present, Oriflame owns and operates five cosmetic manufacturing plants – in Poland, Sweden, India, China and Russia. Energy conservation, greenhouse gas reduction, waste reduction and water use are key considerations in the design of these plants and the production equipment used there. Oriflame work continuously to monitor environmental data at our factories to identify opportunities for improvement. Moreover, as regulatory requirements vary in different parts of the world, Oriflame adapts its policies to comply with the ever changing and increasingly demanding environmental legislation at local and international levels.

Energy and Greenhouse Gases

Oriflame is highly conscious of its impact on global warming. The Company meas-

ures and reports its greenhouse gas emissions and climate change strategies via the Carbon Disclosure Project. During the past five years, at the two largest plants, in Poland and Sweden, Oriflame has successfully managed to achieve a combined reduction of energy use by 30 percent and CO_2 emissions by approximately 20 percent (per unit produced). The Swedish facility (OPS) near Stockholm is an integral part of the local community and works very closely with the local authorities to minimise its impact on the environment, for example by using only hydroelectric power. The goal is to continue on this ambitious track. From 2010–2015, Oriflame aims to deliver an additional 20 percent reduction in Greenhouse Gas emissions (per unit production) at the manufacturing facilities. The Company also aims to reduce the consumption of energy per unit produced by 15 percent within the manufacturing operations.

Waste

Oriflame is committed to minimizing the waste produced, having numerous ongoing initiatives to reduce the amount of waste generated. For example, the Company has decreased its total effluent waste by introducing site treatment at two facilities. Oriflame is continuing to reduce total waste in the manufacturing operations and the goal is to achieve an additional 10 percent reduction in total waste generated per unit production.

Water

With operations in countries like India and China, reducing water use is of course another key priority for Oriflame. During the past five years the Company has managed to achieve a combined reduction of 35 percent in water use at the manufacturing operations. From 2010 to 2015, the goal is to deliver an additional 10 percent reduction (per unit production) in water use at the manufacturing facilities leading to a total reduction over a decade of at least 45 percent.

... and when packaging and distributing

Oriflame Cosmetics aims to produce recyclable packaging whenever possible, with the main packaging material indicated on each product to facilitate recycling. The ambition is to further decrease product packaging in an effort to reduce waste volumes. Whenever possible catalogues are produced using paper that is sourced from sustainable forests and that is bleached using environmentally respectful processes. The strategy is to move catalogue-printing closer to the markets, in order to reduce the environmental impact from transportation.

During production and transportation, Oriflame endeavours to save energy and minimise impact on the environment. In the past few years, significant energy savings have been achieved by the relocation of distribution hubs as part of the Product Fulfilment project, a major re-engineering of the Oriflame supply chain.

REDUCTION PER UNIT PRODUCED AT MANUFACTURING FROM 2010–2015

–15% ENERGY USE
–20% GREENHOUSE GAS EMISSIONS
–10% TOTAL WASTE
–10% WATER USE

The goals above are a selection of Oriflame's existing environmental goals. Oriflame continuously monitors progress and sets additional goals around key areas of risk and opportunity for the business.

Key figures

Two-year record

EUR million (unless otherwise stated)	**2009**	**2008**
Sales	1,316.6	1,319.7
Gross profit	874.8	909.0
Gross margin, %	66.4	68.9
EBITDA	2) 168.1	1) 216.6
Operating profit	2) 146.8	1) 187.3
Operating margin, %	2) 11.1	1) 14.2
Profit before tax	2) 118.6	1) 150.2
Net profit	2) 101.7	1) 133.1
Cash generated from operations	176.9	136.1
Cash flow from operating activities	131.7	91.3
Average operating capital	319.2	300.3
Return on operating capital, %	46.0	62.4
Average capital employed	407.0	366.1
Return on capital employed, %	36.2	51.8
Net interest-bearing debt	160.0	198.0
Interest cover	6.1	7.0
Earnings per share, basic, €	1.77	2.22
Earnings per share, diluted, €	1.76	2.20
Average number of employees	7,968	7,174

1) Before restructuring costs due to the new operational platform of EUR 8.7m.
2) Before restructuring costs in the EMEA region of EUR 1.3m.

Definitions

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

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

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

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

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

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

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

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

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

Quarterly figures

	2008				2009			
Sales, €million	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
CIS & Baltics	189.2	169.4	161.2	239.3	196.9	168.5	145.9	213.8
EMEA	92.7	97.1	92.0	108.6	97.1	98.3	85.5	114.6
Latin America	13.1	14.9	15.4	15.2	14.6	16.2	15.3	16.5
Asia	18.7	19.4	20.9	23.4	26.3	27.6	26.2	32.8
Manufacturing	5.0	3.9	4.7	2.3	3.2	1.2	1.3	1.4
Other	3.2	3.9	3.2	3.0	3.2	3.7	3.1	3.4
Oriflame	**321.9**	**308.6**	**297.4**	**391.8**	**341.3**	**315.5**	**277.3**	**382.5**

Operating profit, €million	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
CIS & Baltics	41.4	32.1	20.3	53.7	33.6	23.7	11.4	38.1
EMEA	16.8	18.4	15.0	21.3	13.3	14.7	11.3	19.7
Latin America	1.2	2.0	1.3	0.6	(0.6)	1.1	0.8	–
Asia	1.2	0.8	(0.1)	1.2	1.2	1.7	2.3	4.0
Manufacturing	2.4	2.1	1.9	(0.1)	0.5	(1.3)	(1.4)	(1.0)
Other	(12.8)	(13.5)	(9.2)	(10.8)	(10.2)	(7.6)	(2.8)	(5.8)
Oriflame	**50.2**	**41.9**	**29.2**	**65.9**	**37.8**	**32.3**	**21.6**	**55.0**

Average sales force, '000	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
CIS & Baltics	1,510	1,590	1,483	1,597	1,831	2,046	1,783	1,973
EMEA	684	686	664	697	751	808	717	769
Latin America	107	113	120	127	124	134	135	137
Asia	310	338	354	363	418	429	386	406
Oriflame	**2,611**	**2,727**	**2,621**	**2,784**	**3,124**	**3,417**	**3,021**	**3,285**

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

The Oriflame share

Oriflame Cosmetics was introduced on the Nasdaq OMX Nordic Exchange on 24 March 2004 through an initial public offering of Swedish Depositary Receipts (SDRs). On 31 December 2009, the number of shareholders and SDR holders was 9,406. Each SDR represents one share. The last price paid on 30 December 2009 was SEK 428.50 giving Oriflame a total market capitalisation of SEK 24.3 billion. During 2009 an average of 264,833 shares were traded per day on the Nasdaq OMX Nordic Exchange.

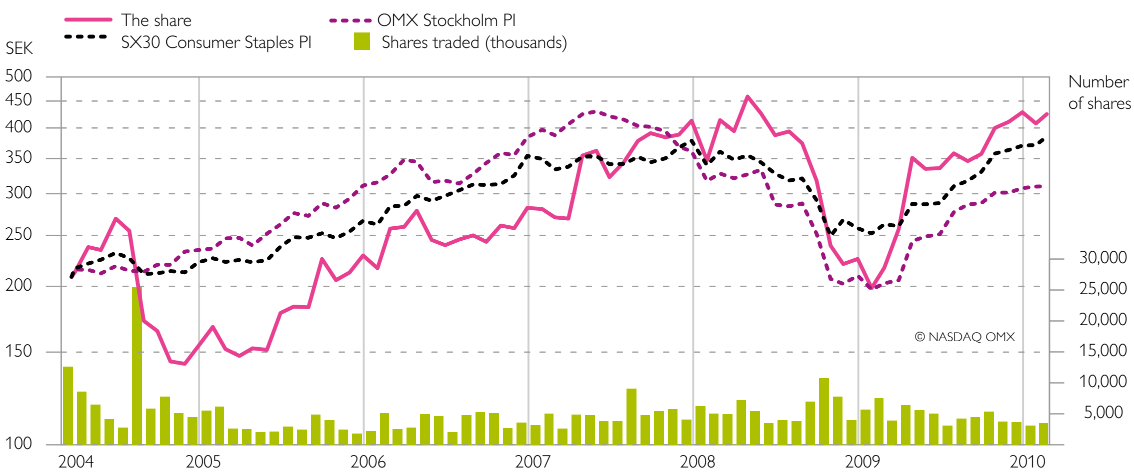
Oriflame Cosmetics top 10 shareholders as at 31 December 2009

	Shares	Capital and votes, %
Stichting af Jochnick Foundation	6,016,001	10.6
Omnibus*	4,935,559	8.7
Robert & Alexander af Jochnick and family	4,392,735	7.7
Jonas af Jochnick and family	3,611,317	6.4
JP Morgan Bank*	3,152,302	5.5
Swedbank Robur Fonder	3,043,138	5.4
Jupiter Asset Management	1,864,671	3.3
AMF Försäkring och Fonder	1,569,753	2.8
Oppenheimer lending account*	1,167,068	2.1
4th AP Fund	873,147	1.5
Other	26,188,967	46.0
Total	**56,814,658**	**100.0**

Source: Euroclear 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 2009

Shareholding	Number of shareholders	%	Number of shares	%
1– 1,000	8,387	89	1,443,149	2
1,001– 10,000	702	8	2,226,303	4
10,001– 50,000	195	2	4,518,702	8
50,001– 500,000	106	1	13,956,585	25
500,001–1,000,000	7	0	4,917,375	9
1,000,001– upwards	9	0	29,752,544	52
Total	**9,406**	**100.0**	**56,814,658**	**100.0**

Source: Euroclear and share register

Dividend policy and dividend proposal

The Board of Directors has adopted a dividend policy to the effect that, absent changes in the Company's operations or capital structure, Oriflame intends to distribute, over the long term, at least 50 percent of the Company's annual profit after tax as dividends. For 2009, the Board of Directors proposes to the Annual General Meeting a distribution of EUR 1.25 (1.25) per share. The last day of trading including right to dividend is 19 May 2010 and payment of cash dividend will occur through Euroclear on or about 27 May 2010.

History of share capital

The table below presents the changes in the Company's share capital since 2005. 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
2005 (1)	New issue	141,761	177	59,483,190	74,354
2006 (2)	Cancellation of redeemed shares	(3,813,304)	(4,766)	55,669,886	69,588
2007 (3)	New issue	71,828	90	55,741,714	69,678
2008 (4)	New issue	551,601	689	56,293,315	70,367
2009 (5)	New issue	521,343	651	56,814,658	71,018

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

Management report

Sales and results

Sales increased by 15 percent in local currencies and amounted to EUR 1,316.6m. Sales growth in local currencies was driven by a 21 percent increase in the average size of the sales force (22 percent in 2008) partly offset by a 6 percent decrease in productivity (1 percent increase in 2008). Unit sales increased by 9 percent.

The increase in local currency sales was due to a strong development in all regions. Local currency sales in Asia increased by 40 percent (37 percent in Euros), CIS & Baltics 18 percent (decrease of 4 percent in Euros), Latin America 12 percent (7 percent in Euros) and EMEA 8 percent (1 percent in Euros).

Gross margins decreased to 66.4 percent (68.9 percent) mainly due to negative currency effects. The operating margin before restructuring costs amounted to 11.1 percent (14.2 percent) resulting in an operating profit of EUR 146.8m (187.3m). Oriflame had restructuring charges related to operations in the EMEA region and global supply of EUR 1.3m in 2009 (EUR 8.7m in 2008). Net profit after restructuring amounted to EUR 100.3m (124.4m) and diluted earnings per share after restructuring amounted to EUR 1.76 (2.20).

Cash flow and capital expenditure

Cash flow from operating activities amounted to EUR 131.7m (91.3m) for the year. A decrease in EBITDA of EUR 48.5m before restructuring costs was more than offset by improvement in working capital and provisions development of EUR 89.3m. Inventories decreased by EUR 19.5m in 2009 while last year saw an inventory increase of EUR 69m. The cash impact of restructuring programmes was EUR 1.8m in 2009 and EUR 21m in 2008. Cash flow used in investing activities during 2009 amounted to EUR –28.4m (–34.3m).

Financial position and dividends

Net interest-bearing debt amounted to EUR 160m at year-end 2009 compared to EUR 198m at year end 2008. Net debt / EBITDA amounted to 0.95 (0.91) and interest cover amounted to 6.1 (7.0). In December 2009 Oriflame signed a EUR 400m three-year revolving credit facility.

Oriflame's Board of Directors will propose to the AGM a dividend of EUR 1.25 (1.25) per share, which corresponds to 70 percent of net profit before restructuring costs. The total amount corresponds to EUR 71 million. The dividend will be paid after the AGM on 19 May 2010.

Human resources

At 31 December 2009 the total number of employees was 8,181 (7,966).

Board of Directors and management

The Board of Directors consists of 8 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 14 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 section Corporate Governance.

Outlook and long-term financial targets

In connection to the publication of the full year report on 10 February 2010, Oriflame announced a new outlook for 2010. Sales growth is expected to be in line with Oriflame's long term target of around 10 percent in local currency and operating margins are expected to be above 12 percent at current exchange rates at the day of announcement. The long-term financial targets are to achieve local currency sales growth of around 10 percent per annum and to reach 15 percent operating margin.

Research & development

In 2009, Oriflame's R&D expenses amounted to EUR 10.8m compared to EUR 11.5m in 2008.

Shares

The accounting par value per Oriflame share is EUR 1.25.

Statement from the Board of Directors

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

Robert af Jochnick
Chairman of the Board

Lennart Björk	Marie Ehrling	Lilian Fossum	Alexander af Jochnick
Jonas af Jochnick	Helle Kruse Nielsen	Christian Salomon	Magnus Brännström *CEO*

Consolidated income statements

Year ended 31 December

€'000	**Note**	**2009**	**2008**
Sales	3	1,316,595	1,319,666
Cost of sales		(441,813)	(410,632)
Gross profit		**874,782**	**909,034**
Other Income	4	52,744	45,565
Selling and marketing expenses		(559,456)	(538,115)
Administrative expenses	6, 7	(221,288)	(229,144)
Operating profit before restructuring	3	**146,782**	**187,340**
Restructuring	26	(1,341)	(8,700)
Operating profit after restructuring		**145,441**	**178,640**
Financial income	9	3,059	8,717
Financial expenses	9	(31,247)	(45,821)
Net financing costs		**(28,188)**	**(37,104)**
Net profit before tax		**117,253**	**141,536**
Current tax	10	(20,126)	(17,709)
Deferred tax	10, 15	3,185	561
Total income tax expense	10	(16,941)	(17,148)
Net profit		**100,312**	**124,388**
Earnings per share, €	11		
Basic		1.77	2.22
Diluted		1.76	2.20

The attached notes on pages 45 to 64 form an integral part of the consolidated financial statements.

Consolidated statements of comprehensive income

Year ended 31 December

€'000	Note	2009	2008
Net profit		**100,312**	**124,388**
Other comprehensive income			
Foreign currency translation differences for foreign operations	9	(6,744)	(26,181)
Effective portion of changes in fair value of cash flow hedges, net of tax	9	2,407	(3,360)
Other comprehensive income for the year, net of income tax		**(4,337)**	**(29,541)**
Total comprehensive income for the year		**95,975**	**94,847**

The attached notes on pages 45 to 64 form an integral part of the consolidated financial statements.

Consolidated statements of financial position

€'000	Note	31 December 2009	31 December 2008
Assets			
Intangible assets	12	18,670	12,678
Property, plant and equipment	13	134,137	136,969
Investment property	14	1,797	1,742
Deferred tax assets	15	17,187	14,124
Other long-term receivables		3,538	3,267
Total non-current assets		**175,329**	**168,780**
Inventories	16	221,309	237,982
Accounts receivable and prepaid expenses	17	111,389	104,961
Cash and cash equivalents	18	107,213	68,455
Total current assets		**439,911**	**411,398**
Total assets		**615,240**	**580,178**
Equity			
Share capital	19	71,018	70,367
Reserves	20	(65,985)	(55,587)
Retained earnings		153,088	114,132
Total capital and reserves		**158,121**	**128,912**
Liabilities			
Interest-bearing loans	21	260,138	238,428
Other long-term non interest-bearing liabilities		418	360
Deferred income		455	539
Deferred tax liabilities	15	4,098	4,538
Total non-current liabilities		**265,109**	**243,865**
Current portion of interest-bearing loans	21	2,155	26,310
Taxes payable		14,568	10,657
Accounts payable and accrued expenses	22	164,675	155,487
Pensions reserve		1,111	2,464
Provisions	26	9,501	12,483
Total current liabilities		**192,010**	**207,401**
Total equity and liabilities		**615,240**	**580,178**

The attached notes on pages 45 to 64 form an integral part of the consolidated financial statements.

Consolidated statements of changes in equity

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

€'000	Share capital	Treasury Shares	Share premium	Legal reserve	Special reserve	Translation reserve	Hedging reserve	Other reserves	Total reserves	Retained earnings	Total Equity
At 1 January 2008	**69,678**	**–**	**2,652**	**7,363**	**5,313**	**(54,115)**	**1,431**	**11,772**	**(25,584)**	**48,727**	**92,821**
Net profit	–	–	–	–	–	–	–	–	–	124,388	124,388
Other comprehensive income	–	–	–	–	–	(26,181)	(3,360)	–	(29,541)	–	(29,541)
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**(26,181)**	**(3,360)**	**–**	**(29,541)**	**124,388**	**94,847**
Issuance of new shares	689	–	2,744	–	–	–	–	–	2,744	–	3,433
Acquisition of own shares	–	(87)	–	–	–	–	–	–	(87)	–	(87)
Share incentive plan	–	–	–	–	–	–	–	2,194	2,194	5,381	7,575
Dividends	–	–	–	–	(5,313)	–	–		(5,313)	(64,364)	(69,677)
At 31 December 2008	**70,367**	**(87)**	**5,396**	**7,363**	**–**	**(80,296)**	**(1,929)**	**13,966**	**(55,587)**	**114,132**	**128,912**
Net profit	–	–	–	–	–	–	–	–	–	100,312	100,312
Other comprehensive income	–	–	–	–	–	(6,744)	2,407	–	(4,337)	–	(4,337)
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**(6,744)**	**2,407**	**–**	**(4,337)**	**100,312**	**95,975**
Issuance of new shares, note 19	651	–	2,836	–	–	–	–	–	2,836	–	3,487
Sale of own shares, note 19	–	87	–	–	–	–	–	–	87	27	114
Share incentive plan	–	–	–	–	–	–	–	(8,984)	(8,984)	8,984	–
Dividends, note 20	–	–	–	–	–	–	–	–	–	(70,367)	(70,367)
At 31 December 2009	**71,018**	**–**	**8,232**	**7,363**	–	**(87,040)**	**478**	**4,982**	**(65,985)**	**153,088**	**158,121**

The attached notes on pages 45 to 64 form an integral part of the consolidated financial statements.

Consolidated statements of cash flows

Year ended 31 December

€'000	Note	2009	2008
Operating activities			
Operating profit		**145,441**	**178,640**
Adjustments for:			
Depreciation and amortisation		21,549	21,709
Deferred income		(84)	–
Share incentive plan		–	7,575
Foreign exchange loss		(12,762)	(5,011)
Loss/(profit) on disposal of property, plant and equipment		78	(205)
Operating profit before changes in working capital and provisions		**154,222**	**202,708**
Increase in accounts receivable and prepaid expenses		(3,066)	(17,369)
Decrease/(increase) in inventory		19,460	(68,977)
Increase in accounts payable and accrued expenses		9,312	31,586
Decrease in provisions		(2,982)	(11,864)
Cash generated from operations		**176,946**	**136,084**
Interest and bank charges paid		(27,494)	(27,703)
Income taxes paid		(17,765)	(17,086)
Cash flow from operating activities		**131,687**	**91,295**
Investing activities			
Proceeds on sale of property, plant and equipment and intangible assets		311	3,329
Interest received		564	1,330
Purchase of property, plant and equipment and investment property		(21,664)	(35,984)
Purchase of intangible assets		(7,660)	(2,997)
Cash flow used in investing activities		**(28,449)**	**(34,322)**
Financing activities			
Movement in loans		311,040	19,773
Repayment of the April 2006 and February 2009 loans		(310,000)	–
Proceeds from issuance of new shares		3,487	3,433
Proceeds/(purchase) from sale of own shares		114	(87)
Dividends paid		(70,307)	(69,639)
Cash flow used in financing activities		**(65,666)**	**(46,520)**
Increase in cash and cash equivalents		**37,572**	**10,453**
Cash and cash equivalents at 1 January		68,310	62,828
Effect of exchange rate fluctuations on cash held		1,210	(4,971)
Cash and cash equivalents at the end of the year	18	**107,092**	**68,310**

The attached notes on pages 45 to 64 form an integral part of the consolidated financial statements.

Notes to the consolidated financial statements

Note 1 • Status and principal activity

Oriflame Cosmetics S.A. ("OCSA" or the "Company") is a holding company incorporated in Luxembourg and registered at 24 Avenue Emile Reuter, L-2420 Luxembourg. The principal activity of the Company's subsidiaries is the direct sale of cosmetics. The consolidated financial statements of the Company as at and for the year ended 31 December 2009 comprise the Company and its subsidiaries (together referred to as the "Group").

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

(a) Statement of compliance

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

The financial statements were authorised for issue by the Board of Directors on 14 April 2010.

(b) Basis of preparation

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

(c) Use of estimates and judgements

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

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

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

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

(d) Changes in accounting policies and presentation

As of 1 January 2009, Oriflame Cosmetics S.A. adopted the following new standards and amendments to standards:

IAS 1 Revised – Presentation of financial statements

The Group presents a consolidated income statement and a consolidated statement of comprehensive income separately to meet the revised disclosure requirements.

IFRS 8 Operating segments

This standard requires a management approach under which segment information is presented on the same basis as that used for internal reporting purposes.

These new accounting standards did not have a significant impact on the Group's consolidated financial statements, except for disclosing the manufacturing division as a separate segment.

Changes in presentation

Consolidated income statements

The Group has enhanced the presentation of its consolidated income statement by disclosing revenue coming from sales of catalogues, handling and freight fees in a separate line as "Other income". In addition the Group reclassified costs related to sales programmes and recruitment campaigns into respectively "Sales", "Cost of sales" and "Selling and marketing expenses". These reclassifications have had no impact on the operating profit.

Consolidated statements of financial position

The pension reserve was reclassified from provisions into a separate line.

Comparative information has been re-presented so that it also is in conformity with the revised standards and presentation. Since the changes in accounting policies only impact presentation and disclosure, there is no impact on net income or earnings per share.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in note 2(d).

(e) Basis and scope of consolidation

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

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

The scope of consolidation is affected by acquisitions and disposals. In 2009, there were no major acquisitions and disposals.

(f) Foreign currencies

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to euro at the foreign exchange rate ruling at that date. Foreign exchange differences arising on revaluation of monetary assets and liabilities are recognised in the consolidated income 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 reporting date and profits and losses at monthly average rates. Exchange differences arising on trading transactions are included in earnings for the period and exchange differences arising on the translation of the financial statements of foreign subsidiaries are reported as movements in translation reserves. Exchange differences arising on loans between subsidiaries which are of a long term investment nature, where settlement is not planned or anticipated in the foreseeable future, are reported as movements in translation reserves until the disposal of the net investment, at which time they are recognised in the consolidated income statement.

(g) 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 (h)).

The fair value of interest swaps is the estimated amount which the Group would receive or pay to terminate the swap at the reporting 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 reporting date, being the present value of the quoted forward price.

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

(h) Hedging

(i) Cash flow hedges

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

(i) Sales revenue and other income

Revenue, which excludes value added tax and other applicable turnover taxes, represent sales to individual sales consultants and licensed distributors or, in the case of mail order and retail sales, to individual customers. Sales are recognised in the consolidated income 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.

Other income comprises catalogues sales and freight income.

(j) Employee benefits

(i) Pension obligations

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

(ii) Equity related compensation

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

(k) Taxation

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 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 reporting date.

Deferred tax assets are recognised only to the extent that it is probable future taxable profits will be available against which the assets 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.

(l) Intangible assets

(i) Goodwill

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

(ii) Other intangible assets

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

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

(iii) Subsequent expenditure

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

(iv) Research and development

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

(v) Amortisation

Amortisation is charged to the consolidated income 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 reporting date. Intangible assets, except goodwill and property rights, are amortised from the date they are available for use. The estimated useful life for licenses is 10 years, trademarks between 5 and 10 years, capitalised development costs between 3 and 5 years and software between 3 and 5 years.

(m) Property, plant and equipment

(i) Owned assets

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

(iv) Depreciation

Depreciation is charged to the consolidated 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

(n) Investment property

Investment properties are properties that are held either to earn rental income or for capital appreciation or for both. Investment property is recorded at cost less accumulated depreciation. Depreciation is charged to the consolidated income statement on a straight line basis with rates between 2 percent to 5 percent per year. Rental income from investment property is recognised within selling and administrative expenses in the consolidated income statement over the term of the lease.

(o) 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.

(p) Accounts receivable and prepaid expenses

Accounts receivable are stated at cost less impairment losses (see accounting policy r).

(q) Cash and cash equivalents

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

(r) Impairment

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

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

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

The recoverable amount of assets is the greater of their fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a 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.

(s) Share capital

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

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

(t) Interest bearing 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 consolidated income statement over the period of the borrowings on an effective interest basis.

(u) Government grants

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

(v) Accounts payable and accrued expenses

Accounts payable and accrued expenses are stated at cost.

(w) Provisions

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

(x) Expenses

(i) Operating lease payments

Payments made under operating leases are recognized in the consolidated income statement on a straight line basis over the term of the lease. Lease incentives received are recognized in the consolidated 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 consolidated income statement.

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

(y) Segment reporting

As of 1 January 2009 the Group determines and presents operating segments based on the information that internally is provided to the Executive Committee, which is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of IFRS 8 Operating Segments. Previously operating segments were determined and presented in accordance with IAS 14 Segment Reporting.

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

Comparative segment information has been re-presented in conformity with the transitional requirements of such standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

(z) New standards and interpretations not yet adopted

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

Standard/Interpretation		Effective date	Planned application
IFRS 3 revised – Business Combinations	*	1 July 2009	Reporting year 2010
Improvements to IFRSs 2008 – Amendments to IFRS 5 amended – Non-current Assets Held for Sale and Discontinued Operations	*	1 July 2009	Reporting year 2010
IAS 27 amended – Consolidated and Separate Financial statements	*	1 July 2009	Reporting year 2010
IAS 39 amended – Financial Instruments: Recognition and Measurement – Eligible Hedged Items	***	1 July 2009	Reporting year 2010
IFRIC 17 – Distributions of Non-cash Assets to Owners	*	1 July 2009	Reporting year 2010
Improvements to IFRSs (April 2009)	*	1 July 2009 1 January 2010	Reporting year 2010
IFRS 1 revised – First Time Adoption of IFRS	*	1 July 2009	Reporting year 2010
IFRS 2 amended – Group Cash-settled Share-based Payment Transactions	*	1 January 2010	Reporting year 2010
IFRS 1 amended – First-time Adoption of International Financial Reporting Standards – Additional Exemptions	*	1 January 2010	Reporting year 2010
IAS 32 amended – Financial Instruments: Presentation - Classification of Rights Issues	*	1 February 2010	Reporting year 2011
IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments	*	1 July 2010	Reporting year 2011
IAS 24 Related Party Disclosures (revised 2009)	**	1 January 2011	Reporting year 2011
IFRIC 14 amended : IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – Prepayments of a Minimum Funding Requirement	*	1 January 2011	Reporting year 2011
IFRS 9 – Financial Instruments: Measurement and Classification	***	1 January 2013	Reporting year 2013

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

Note 3 • Segment reporting

Oriflame's only operating segment is cosmetics. For presentation purposes the financial information below is based on geographic cosmetics sales and the segment manufacturing. The presentation consists of CIS & Baltics, EMEA, Latin America, Asia plus Manufacturing, as this is the structure of financial information reviewed by the Executive Committee. "All other segments" includes mail order business and licensee sales.
The accounting policies of the reportable segments are the same as described in note 2.

As per 31 December 2009

€'000	CIS & Baltics	EMEA	Latin America	Asia	Manu-facturing	All other segments	Total segments	Unallocated items	Total
Sales	725,044	395,425	62,533	112,933	6,983	13,677	**1,316,595**	–	**1,316,595**
Operating profit before restructuring	106,787	59,134	1,295	9,138	(3,161)	1,461	**174,654**	(27,872)	**146,782**
Restructuring									**(1,341)**
Net financing costs									**(28,188)**
Net profit before tax									**117,253**
Total income tax expense									**(16,941)**
Net profit									**100,312**
Capital expenditure	(6,911)	(1,857)	(1,846)	(2,248)	(4,783)	–	**(17,645)**	(11,679)	**(29,324)**
Depreciation & amortisation	(4,718)	(556)	(820)	(1,541)	(5,053)	(47)	**(12,735)**	(8,814)	**(21,549)**
Segment Assets	281,864	158,509	30,514	54,911	91,891	34,770	**652,459**	(37,219)	**615,240**
Segment Liabilities	39,630	23,364	6,269	14,481	45,067	418	**129,229**	327,890	**457,119**
Goodwill	–	1,053	–	4,345	–	–	**5,398**	–	**5,398**

2008

€'000	CIS & Baltics	EMEA	Latin America	Asia	Manu-facturing	All other segments	Total segments	Unallocated items	Total
Sales	759,082	390,347	58,519	82,376	15,935	13,407	**1,319,666**	–	**1,319,666**
Operating profit before restructuring	147,514	71,423	5,148	3,436	6,234	1,211	**234,966**	(47,626)	**187,340**
Restructuring									**(8,700)**
Net financing costs									**(37,104)**
Net profit before tax									**141,536**
Total income tax expense									**(17,148)**
Net profit									**124,388**
Capital expenditure	(13,283)	(2,820)	(1,468)	(2,006)	(9,038)	(8)	**(28,623)**	(10,358)	**(38,981)**
Depreciation & amortisation	(5,008)	(2,713)	(527)	(1,112)	(5,076)	(56)	**(14,492)**	(7,217)	**(21,709)**
Segment Assets	296,080	163,630	25,533	41,826	112,273	33,864	**673,206**	(93,028)	**580,178**
Segment Liabilities	38,859	22,878	5,259	12,198	48,890	440	**128,524**	322,742	**451,266**
Goodwill	–	1,053	–	4,345	–	–	**5,398**	–	**5,398**

Note 4 • Other income

Other income are composed of:

€'000	2009	2008
Freight income	32,696	29,066
Printing income	20,048	16,499
Other income	**52,744**	**45,565**

Note 5 • Employee benefit expense

€'000	2009	2008
Salaries and wages	114,379	114,677
Social security contributions	23,141	22,304
Pension expenses	3,725	4,714
Equity settled transactions	–	7,575
	141,245	**149,270**

The average number of employees in 2009 was 7,968 (7,174).

Note 6 • Auditor's remuneration

€'000	2009	2008
Auditors' remuneration	1,418	1,451
Auditors' remuneration for non-audit services	179	202
	1,597	**1,653**

Note 7 • Research and Development

€'000	2009	2008
Research and development	10,780	11,461

Note 8 • Depreciation and Amortisation

€'000	2009	2008
Depreciation	18,823	18,850
Amortisation	2,726	2,859
Depreciation and amortisation expenses	**21,549**	**21,709**

In 2009 amortisation expenses includes €58 (€69) which were presented in cost of sales.

Note 9 • Financial income and expense

Recognised in profit or loss

€'000	2009	2008
Interest income on bank deposits	564	1,330
Change in fair value of financial assets and liabilities designated at fair value:		
– Forward exchange rate contracts income	–	6,297
– Interest rate swaps income	–	1,090
Foreign exchange gains, net	2,495	–
Total financial income	**3,059**	**8,717**
Bank charges and interest expense on financial liabilities	(23,137)	(27,068)
Change in fair value of financial assets and liabilities designated at fair value:		
– Forward exchange rate contracts expense	(7,283)	–
– Interest rate swaps expense	(736)	–
– Interest rate caps expense	(91)	–
Foreign exchange losses, net	–	(18,753)
Total financial expense	**(31,247)**	**(45,821)**
Total net financial expense	**(28,188)**	**(37,104)**

Recognised in other comprehensive income

€'000	2009	2008
Effective portion of fair value of cash flow hedge	531	(1,930)
Income tax on effective portion of fair value of cash flow hedge	(53)	–
Effective portion of fair value of cash flow hedge, net of tax	**478**	**(1,930)**
Net gain / (loss) on revaluation of cash flow hedges	528	(340)
Net change in fair value of cash flow hedges transferred to profit or loss:		
Administrative expense	1,574	–
Financial income	(173)	(1,090)
Effective portion of changes in fair value of cash flow hedges, net of tax	**2,407**	**(3,360)**
Foreign currency translation differences for foreign operations	**(6,744)**	**(26,181)**
Financial expense recognized in other comprehensive income, net of tax	**(4,337)**	**(29,541)**

Note 10 • Income tax expense

€'000	2009	2008
Recognised in the consolidated income statement		
Current tax expense	20,126	17,709
Deferred tax income:		
Origination and reversal of temporary differences	(972)	664
Utilisation of losses brought forward	(158)	(122)
Utilisation of previously unrecognised losses brought forward	(2,055)	(1,103)
	(3,185)	**(561)**
Total income tax expense in the consolidated income statement	**16,941**	**17,148**

Reconciliation of effective tax rate		
Net profit before tax	117,253	141,536
Average applicable tax rate, %	11.0	9.0
Tax at applicable tax rate	12,932	12,693
Adjustment to tax expense		
Non-deductible expenses	4,504	3,975
Release of tax provision	(698)	(1,740)
Utilisation of tax losses brought forward	(158)	(122)
Utilisation of previously unrecognised losses brought forward	(2,055)	(1,103)
Withholding taxes	1,934	1,485
Other taxes	446	1,940
Adjustments in respect of prior years	36	20
Tax expense	**16,941**	**17,148**
Effective tax rate, %	**14.4**	**12.1**

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

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

Note 11 • Earnings per share

(a) Basic

Earnings per share are based on the net profit attributable to ordinary shareholders of €100,312 (€124,388) and the weighted average number of shares outstanding during the year. The weighted average number of shares used in the computation was 56,536,181 for the year to 31 December 2009 (56,013,187). Treasury shares were deducted in calculating the weighted average number of shares outstanding.

(b) Diluted

Diluted earnings per share are calculated taking into account the potential dilutive effect of the achievement share options granted under the share incentive scheme (see note 23). The weighted average number of ordinary shares adjusted for the share schemes can be specified as follows:

Number of shares	2009	2008
Weighted average number of shares outstanding (basic)	56,536,181	56,013,187
Effect of share schemes	467,629	399,388
Weighted average number of shares outstanding (diluted)	**57,003,810**	**56,412,575**

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

Note 12 • Intangible assets

€'000	Software	Trademarks	Licenses	Property rights	Goodwill	Total
Cost						
At 31 December 2007	**12,773**	**940**	**2,924**	**30**	**5,398**	**22,065**
Additions	2,855	142	–	–	–	2,997
Disposals	(2,020)	–	–	–	–	(2,020)
Re-classification	189	–	–	–	–	189
Translation	(549)	–	–	–	–	(549)
At 31 December 2008	**13,248**	**1,082**	**2,924**	**30**	**5,398**	**22,682**
Additions	4,262	98	–	3,300	–	7,660
Disposals	(28)	–	–	–	–	(28)
Re-classification	1,871	–	–	–	–	1,871
Translation	(33)	–	–	–	–	(33)
At 31 December 2009	**19,320**	**1,180**	**2,924**	**3,330**	**5,398**	**32,152**
Amortisation						
At 31 December 2007	**5,741**	**507**	**2,924**	**–**	**–**	**9,172**
Charge for the year	2,781	78	–	–	–	2,859
Disposals	(1,681)	–	–	–	–	(1,681)
Re-classification	–	–	–	–	–	–
Translation	(346)	–	–	–	–	(346)
At 31 December 2008	**6,495**	**585**	**2,924**	**–**	**–**	**10,004**
Charge for the year	2,641	85	–	–	–	2,726
Disposals	(28)	–	–	–	–	(28)
Re-classification	855	–	–	–	–	855
Translation	(75)	–	–	–	–	(75)
At 31 December 2009	**9,888**	**670**	**2,924**	**–**	**–**	**13,482**
Net Book Value						
At 31 December 2007	**7,032**	**433**	**–**	**30**	**5,398**	**12,893**
At 31 December 2008	**6,753**	**497**	**–**	**30**	**5,398**	**12,678**
At 31 December 2009	**9,432**	**510**	**–**	**3,330**	**5,398**	**18,670**

Goodwill

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

For the purpose of impairment testing, goodwill is allocated by geographical segment as reported in note 3. At reporting date, the goodwill was tested for impairment with a discount rate of 9 percent. The recoverable amounts of the goodwill allocated by the respective geographical segment are determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial forecasts covering a five year period. Growth rate assumptions do not exceed past performances and recoverable amounts are estimated to be higher than the carrying amount of goodwill. No impairment loss was recognised in 2009 and in 2008.

Property rights

At the beginning of 2009 the Group has purchased the property rights for a dry food composition technology used in some of the wellness products. This technology is used throughout the Group where wellness products are sold, and therefore is not allocated to a specific geographic segment. The useful life of this technology was classified as indefinite as Oriflame has an exclusive, perpetual, unlimited right to use it. The recoverable amount is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial forecasts covering a seven year period. Growth rate assumptions do exceed past performances and recoverable amounts are estimated to be higher than the carrying amount of property rights. Calculation was based on a annual discount rate of 9 percent. No impairment loss was recognised in 2009.

Software

Included in software additions during the year are costs for own developed software for an amount of €940 (€29).

Note 13 • Property, plant and equipment

€'000	Freehold land & buildings	Improvements to leasehold property	Plant & machinery	Furniture & equipment	Computer equipment	Motor vehicles	Total
Cost							
At 31 December 2007	**103,050**	**19,370**	**52,836**	**19,036**	**29,491**	**6,347**	**230,130**
Additions	6,019	8,412	12,397	3,760	4,406	1,015	36,009
Disposals	(4,485)	(1,801)	(184)	(2,257)	(3,360)	(879)	(12,966)
Re-classification	–	(16)	–	10	(183)	–	(189)
Translation	(12,010)	(2,171)	(5,162)	(1,759)	(2,467)	(636)	(24,205)
At 31 December 2008	**92,574**	**23,794**	**59,887**	**18,790**	**27,887**	**5,847**	**228,779**
Additions	4,643	3,499	5,639	2,823	4,487	547	21,638
Disposals	(87)	(452)	(723)	(550)	(4,713)	(611)	(7,136)
Re-classification	37	–	(42)	5	(1,879)	8	(1,871)
Translation	(2,314)	(178)	506	(460)	(121)	(54)	(2,621)
At 31 December 2009	**94,853**	**26,663**	**65,267**	**20,608**	**25,661**	**5,737**	**238,789**
Depreciation							
At 31 December 2007	**13,409**	**10,710**	**28,676**	**11,661**	**23,148**	**4,152**	**91,756**
Charge for the year	2,498	2,965	6,009	2,475	3,890	920	18,757
Disposals	(1,572)	(1,775)	(391)	(2,325)	(3,221)	(897)	(10,181)
Re-classification	–	–	–	–	–	–	–
Translation	(1,634)	(1,085)	(2,559)	(997)	(1,834)	(413)	(8,522)
At 31 December 2008	**12,701**	**10,815**	**31,735**	**10,814**	**21,983**	**3,762**	**91,810**
Charge for the year	2,451	3,182	6,291	2,539	3,501	788	18,752
Disposals	(95)	(332)	(455)	(476)	(4,871)	(518)	(6,747)
Re-classification	–	5	(55)	(4)	(808)	7	(855)
Translation	(154)	(57)	1,982	(57)	(7)	(15)	1,692
At 31 December 2009	**14,903**	**13,613**	**39,498**	**12,816**	**19,798**	**4,024**	**104,652**
Net Book Value							
At 31 December 2007	**89,641**	**8,660**	**24,160**	**7,375**	**6,343**	**2,195**	**138,374**
At 31 December 2008	**79,873**	**12,979**	**28,152**	**7,976**	**5,904**	**2,085**	**136,969**
At 31 December 2009	**79,950**	**13,050**	**25,769**	**7,792**	**5,863**	**1,713**	**134,137**

Finance leases €'000

Included in property, plant and equipment at 31 December 2009 is the net book value of assets under finance leases totalling €214 (€541), of which computer equipment €23 (€17), motor vehicles €150 (€84), plant and machinery €41 (€440).

Note 14 • Investment property

€'000	2009	2008
Gross carrying value at January 1	**2,467**	**3,184**
Additions	26	–
Translation effects	97	(717)
Gross carrying value at December 31	**2,590**	**2,467**
Accumulated depreciation at January 1	**725**	**930**
Charge of the year	71	93
Translation effects	(3)	(298)
Accumulated depreciation at December 31	**793**	**725**
Net book value at year end	**1,797**	**1,742**

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

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

Amounts included in the consolidated income statements:

€'000	2009	2008
Rental income from investment property	503	631
Direct operating expenses	(30)	(27)
Depreciation	(71)	(93)
Net rental income	**402**	**511**

The fair value of investment properties has been determined through evaluations of independent valuers and has been estimated to be €6.4 million (€6.9 million).

Note 15 • Deferred taxation

Deferred tax assets and liabilities at 31 December 2009 are attributable to the items detailed in the table below:

	2009			2008			
€'000	**Assets**	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**	**Movement**
Property, plant and equipment & intangible assets	8,844	(3,028)	5,816	190	(3,075)	(2,885)	8,701
Inventories	3,954	(149)	3,805	5,822	(519)	5,303	(1,498)
Accounts receivable and prepaid expenses	370	(188)	182	723	(318)	405	(223)
Accruals	1,341	(6)	1,335	3,612	(2)	3,610	(2,275)
Other liabilities	646	(727)	(81)	1,657	(624)	1,033	(1,114)
Tax losses carried forward	2,032	–	2,032	2,120	–	2,120	(88)
Tax assets/(liabilities)	**17,187**	**(4,098)**	**13,089**	**14,124**	**(4,538)**	**9,586**	**3,503**
Translation difference							(318)
Deferred tax income							**3,185**

During the year the Group derecognised €3.0 million (€4.5 million) of deferred tax assets.

Unrecognised deferred tax assets

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

€'000	2009	2008
Deductible temporary differences (a)	38,715	100,963
Tax losses (b)	142,794	56,443
Total	**181,509**	**157,406**

(a) The deductible temporary differences do not expire under current tax legislation.
(b) Of which €3 million (€7.4 million) expire within one year, €34.3 million (€13.7 million) expire between one and five years and €105.5 million (€35.3 million) in more than 5 years.

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

Note 16 • Inventories

€'000	2009	2008
Raw materials	16,829	19,019
Work in progress	219	182
Finished goods	195,222	206,776
Other inventories	31,534	32,764
Inventory reserves	(22,495)	(20,759)
	221,309	**237,982**

During 2009 the Company wrote down €11.2 million (€14.5 million) inventory mainly due to obsolescence.

Note 17 •Accounts receivable and prepaid expenses

€'000	2009	2008
Trade receivables	44,484	38,797
Other receivables	27,617	31,149
Prepaid expenses	39,288	35,015
	111,389	**104,961**

Other receivables include:	2009	2008
Interest rate caps for trading	698	–
Forward exchange rate contracts for hedging	531	–
Forward exchange rate contracts for trading	244	7,269

Exposure to credit risk

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

Carrying amount

€'000	2009	2008
CIS & Baltics	9,109	11,238
EMEA	27,297	20,359
Latin America	6,251	5,452
Asia	1,827	1,748
	44,484	**38,797**

Impairment losses

The aging of trade receivables at the reporting date was:

€'000	Gross 2009	Impair-ment 2009	Gross 2008	Impair-ment 2008
Not past due	37,691	683	31,653	397
Past due 21–180 days	9,066	2,791	9,492	2,716
Past due 181–360 days	3,256	2,767	2,833	2,209
Past due 12–18 months	3,104	2,644	2,744	2,620
Past due >18 months	14,987	14,735	13,380	13,363
	68,104	**23,620**	**60,102**	**21,305**

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

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

€'000	2009	2008
Balance at 1st of January	**21,305**	**19,948**
Impairment loss recognised	4,659	3,973
Specific debt write offs against provision	(2,344)	(2,616)
Balance at 31 December	**23,620**	**21,305**

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

The impairment loss on trade receivables recognised in the consolidated income statement is included in 'selling and marketing expenses'.

Note 18 • Cash and cash equivalents

Cash and cash equivalents included in the cash flow statement comprise the following statement of financial position amounts:

€'000	Cash	Short term deposits	Total cash	Bank overdrafts	Total
At 31 December 2007	**61,800**	**1,280**	**63,080**	**(252)**	**62,828**
Net flow	10,292	54	10,346	107	10,453
Exchange differences	(4,881)	(90)	(4,971)	–	(4,971)
At 31 December 2008	**67,211**	**1,244**	**68,455**	**(145)**	**68,310**
Net flow	16,004	21,544	37,548	24	37,572
Exchange differences	950	260	1,210	–	1,210
At 31 December 2009	**84,165**	**23,048**	**107,213**	**(121)**	**107,092**

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

Note 19 • Share capital

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

	No. of shares	€'000
Share capital		
Balance 31 December 2007	**55,741,714**	**69,678**
Issue of new shares (i)	551,601	689
Balance 31 December 2008	**56,293,315**	**70,367**
Issue of new shares (ii)	521,343	651
Balance 31 December 2009	**56,814,658**	**71,018**

Treasury shares		
Balance at 31 December 2007	**–**	**–**
Acquisition	2,526	87
Balance at 31 December 2008	**2,526**	**87**
Sale (iii)	(2,526)	(87)
Balance at 31 December 2009	**–**	**–**

(i) On 28 August and 9 October 2008 the Group issued 70,236 and 5,765 shares respectively to Oriflame employees and sales consultants as part of the 2008 share incentive plan. The consideration received was €3.4 million, of which €0.1 million was credited to share capital and €3.3 million was credited to share premium.
On 24 June 2008 the Group issued 475,600 achievement shares at no consideration for the maturity of the 2005 share incentive plan. The issue of these shares amounting to €0.6 million was financed through share premium, as approved by the EGM of 19 May 2008.

(ii) On 25 June and 19 October 2009 the Group issued 409,600 achievement shares at no consideration for the maturity of the 2006 share incentive plan. The issue of these shares amounting to €0.5 million was financed through share premium, as approved by the EGM of 19 May 2008.
On 21 August and 19 October 2009 the Group issued 104,041 and 7,702 shares to respectively Oriflame employees and sales consultants as part of the 2009 share incentive plan. The consideration received was €3.5 million, of which €0.2 million was credited to share capital and €3.3 million was credited to share premium.

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

Note 20 • Reserves

(i) Legal reserve

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

(ii) Translation reserve

Included in the translation loss in 2009 are the following:

(a) Exchange loss of €4.4 million (€14.8 million) arising on long term inter-company debt of an investment nature, and;

(b) A foreign exchange loss of €2.2 million (€10 million) 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 million (€9.1 million).

(iii) Hedging reserve

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

(iv) Dividends

In May 2008, the AGM of the Company approved a dividend of €1.25 per share, as proposed by the Board of Directors, i.e. €69.7 million in total.

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

The Board of Directors will propose to the AGM in May 2010 a dividend payment of €1.25 per share, amounting to €71 million in total.

(v) Other reserve

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

Note 21 • Interest bearing loans

€'000	2009	2008
Non-current liabilities		
Bank loans	260,109	238,310
Finance lease long-term liabilities	29	118
	260,138	**238,428**

Current liabilities		
Short-term loans	1,934	5,896
Current portion of long-term loans	–	20,000
Bank overdrafts	121	145
Finance lease short-term liabilities	100	269
	2,155	**26,310**

On 9 December 2009 the Company entered into an agreement for a €400 million revolving, multi-currency committed, three year and one month, credit facility (the "Credit Facility"), replacing both the €375 million facility signed on 4 April 2006 and the €130 million facility signed on 20 February 2009.

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, interest cover and cap on distributions. The Group was in compliance with these covenants as of 31 December 2009.

Terms and debt repayment schedule

The terms and conditions of outstanding loans were as follows:

€´000	Currency	Interest rate	Year of maturity	31 December 2009 Face value	31 December 2009 Carrying amount	31 December 2008 Face value	31 December 2008 Carrying amount
Revolving bank facility	EUR	Euribor + margin	2013	265,000	260,109	–	–
Revolving bank facility	EUR	Euribor + margin	2009	–	–	125,000	124,187
Term loan	EUR	Euribor + margin	2009	–	–	135,000	134,123
Finance lease liabilities	PLN / CZK	6% / 11%	2012	143	129	437	387
Short-term loans	various	between 5% and 13%	2010	1,934	1,934	5,896	5,896
Bank overdrafts	TRL / INR	0% / 15%	2010	121	121	145	145
Total interest bearing liabilities				**267,198**	**262,293**	**266,478**	**264,738**

At 31 December 2009, the Group had total banking facilities available of €409.8 million (€347.9 million) of which €277.2 million (€271.8 million) has been utilized as bank overdrafts, guarantees, short- and long-term loans.

Note 22 • Accounts payable and accrued expenses

€'000	2009	2008
Trade payables	45,210	48,164
Other payables	31,402	27,758
Accrued expenses	88,063	79,565
	164,675	**155,487**

Other payables include:	2009	2008
Interest rate swaps for hedging	–	172
Interest rate swaps for trading	168	–
Forward exchange rate contracts for trading	259	–
Forward exchange rate contracts for hedging	–	1,758

Note 23 • Equity compensation plans

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

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

The fair value of services received in return for the achievement shares granted is measured by reference to the value of the investment shares, which is the market price at the time of investing, less forecasted dividends that are discounted at a rate of 5 percent per year. In 2009 the Company did not record any costs related to share incentive plan compensation. This is due to change of estimated future grants of achievement shares. In 2008 the total equity compensation cost recorded in Administrative Expenses was €7.6 million.

The number of investment shares is as follows:

	Share schemes 2009	2008	2007	2006
Granted at the beginning of the scheme	111,743	76,001	71,828	109,908
Forfeited during 2006	–	–	–	(800)
Forfeited during 2007	–	–	(3,481)	(4,700)
Forfeited during 2008	–	(109)	(1,712)	(2,208)
Outstanding at the beginning of the year	**111,743**	**75,892**	**66,635**	**102,200**
Forfeited during 2009	(949)	(713)	(841)	–
Exercised during 2009	–	–	–	(102,200)
Outstanding at the end of the year	**110,794**	**75,179**	**65,794**	–

Note 24 • Related parties

Identity of related parties

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

Transactions with key management personnel

The Board of Directors and key management personnel of the Company held beneficial interests in the shares of the Company at 31 December 2009 as follows:

	Number of shares 2009
R. af Jochnick and family	3,973,851
J. af Jochnick and family	3,611,317
Alexander af Jochnick	418,884
Christian Salamon	9,240
Marie Ehrling	300
Lilian Fossum	500
Helle Kruse Nielsen	1,000
Lennart Björk	20,000
Magnus Brännström	224,030
Jesper Martinsson	196,188
Gabriel Bennet	12,235

The major shareholders, the af Jochnick family and the Stichting af Jochnick Foundation, jointly exercise control over 14,020,053 shares which represents 24.7 percent of the outstanding total shares as at 31 December 2009.

The key management personnel compensation is as follows:

For the year ended 31 December 2009, the members of the Board of Directors (excluding Magnus Brännström who in his capacity as Chief Executive Officer is an employee) received total compensation of €293 (€293). The Chairman received €68 (€68).

For the year ended 31 December 2009, the Chief Executive Officer received total compensation of €2,038 (€1,549), of which €885 (€1,338) was salary and bonus, €1,000 (€0) share incentive plan, €112 (€180) pension contributions under the pension scheme for senior management, and €41 (€31) other benefits and allowances.

Total compensation to the members of the Corporate Committee, which consists of the Chief Executive Officer, the Chief Operating Officer and the Chief Financial Officer (excluding the Chief Executive Officer) who were employed in the year ended 31 December 2009, were €1,955 (€1,738), which was made up of €965 (€1,483) in salaries and bonuses, €727 (€0) share incentive plan, €116 (€200) in payments into pension schemes and €147 (€55) of other benefits and allowances.

Other related party transactions

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

	Transaction value Year ended 31 December		Balance outstanding As at 31 December	
€'000	2009	2008	2009	2008
Services provided by Credus Management AB	5	1	(1)	–
Cost recharged to Credus Management AB for office services	–	(11)	–	–
Expenses and employee costs incurred on behalf of and recharged to Medicover S.A.	(1,675)	(1,765)	(182)	(186)
Medicover health care services	344	322	–	–

All transactions with related parties are done on arm's length basis.

Credus Management AB, a Swedish company wholly owned by Robert af Jochnick, Chairman of the Company, invoiced Oriflame for consultancy fees to Oriflame by employees of Credus, other than Robert af Jochnick and Alexander af Jochnick, who was employed by Credus Management AB. In 2008 Oriflame recharged some costs that were incurred on behalf of Credus Management AB.

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

Note 25 • Group companies

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

Name	Country of incorporation	Percentage share capital held, %
Oriflame Cosmetics LLC	Armenia	100
Oriflame LLC	Azerbaijan	100
Oriflame Cosmetics Foreign LLC	Belarus	100
Oriflame Management SA	Belgium	100
Oriflame Kozmetika BH. D.o.o. Sarajevo	Bosnia	100
Oriflame Bulgaria EOOD	Bulgaria	100
Oriflame de Chile SA	Chile	100
Oriflame Cosmetics (China) Co. Ltd	China	100
Health Food (Beijing) Co Ltd	China	100
Oriflame de Colombia SA	Colombia	100
Oriflame Kozmetika Croatia doo.	Croatia	100
Oriflame Czech Republic sro	Czech Republic	100
Oriflame Software sro	Czech Republic	100
Oriflame International ApS	Denmark	100
Oriflame del Ecuador SA	Ecuador	100
Oriflame Egypt Ltd	Egypt	100
Oriflame Estonia OU	Estonia	100
Oriflame Oy	Finland	100
Oriflame Georgia LLC	Georgia	100
Oriflame Kosmetik Vertriebs GmbH	Germany	100
Oriflame Hellas Sole Shareholder Ltd	Greece	100
Oriflame Hungary Kozmetika Kft	Hungary	100
Oriflame India Pvt. Ltd.	India	100
SilverOak Laboratories Pvt. Ltd.	India	100
PT Oriflame Cosmetics Indonesia	Indonesia	100
PT Orindo Alam Ayu	Indonesia	100
Oriflame Persia LLC	Iran	100
Oriflame Research & Development Ltd.	Ireland	100
Oriflame LLP	Kazakhstan	100
Oriflame Cosmetics LLC	Kosovo	100
Oriflame Cosmetics LLC	Kyrgyzstan	100
Oriflame Latvija S.I.A	Latvia	100
Oriflame Kosmetika UAB.	Lithuania	100
Oriflame Kozmetika dooel	Macedonia	100
Oriflame Investments Ltd	Mauritius	100
Oriflame (Mexico) SA de CV	Mexico	100

Name	Country of incorporation	Percentage share capital held, %
Servicios Oriflame, SA de CV	Mexico	100
Oriflame International SRL	Moldova	100
Oriflame Mongolia XXK	Mongolia	100
Oriflame Kosmetika MN doo.	Montenegro	100
Oriflame Maroc SARL	Morocco	100
Oriflame Kosmetiek BV.	Netherlands	100
Oriflame Holdings BV.	Netherlands	100
Oriflame Norge A/S	Norway	100
Oriflame Cosmetics Pakistan (PVT) LTD	Pakistan	100
Oriflame Peru S.A.	Peru	100
Oriflame Poland SP zoo.	Poland	100
Oriflame Products Poland SP zoo.	Poland	100
Oriflame Property Investments SP zoo.	Poland	100
Oriflame Cosmeticos Ltda	Portugal	100
SC Cosmetics Oriflame Romania srl.	Romania	100
Oriflame Cosmetics LLC	Russia	100
Oriflame Products LLC	Russia	100
Oriflame Kosmetika d.o.o.	Serbia	100
Oriflame Slovakia sro	Slovak Republic	100
Oriflame Kozmetika d.o.o.	Slovenia	100
Oriflame Cosmeticos S.A.	Spain	100
Oriflame Lanka Private Ltd	Sri Lanka	100
Nordium AB	Sweden	100
Oriflame Cosmetics AB	Sweden	100
Oriflame Services International AB	Sweden	100
Zetes Holdings AB	Sweden	100
Oriflame Cosmetics (Thailand) Ltd	Thailand	100
Oriflame Management Asia Ltc	Thailand	100
Oriflame Kozmetik Urunleri Ticaret Ltd Sirketi	Turkey	100
DP "Oriflame Cosmetics" Ukraine	Ukraine	100
DP "Rielty Ukraine"	Ukraine	100
Oriflame UK Holdings Ltd	United Kingdom	100
Oriflame Kosmetiks Co Ltd	Uzbekistan	100
Oriflame Vietnam Ltd.	Vietnam	100

Note 26 • Provisions, commitments and contingent liabilities

(a) Provisions

€'000	Tax litigations	Restructuring	Employee incentive schemes	Claim and other	Total
Balance at 1 January 2009	**6,253**	**1,778**	**2,923**	**1,529**	**12,483**
Provisions made during the year	1,396	1,277	–	2,046	4,719
Provisions used during the year	(100)	(1,778)	(2,923)	(906)	(5,707)
Provisions reversed during the year	(1,994)	–	–	–	(1,994)
Balance at 31 December 2009	**5,555**	**1,277**	**–**	**2,669**	**9,501**

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

Restructuring provision of €1.3 million relates to the restructuring of operation in the EMEA region and global supply. It is estimated to lead to total restructuring charges of €5–7 million which should be finalized within the next 12–24 months.

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

€'000	2009	2008
Within one year	18,361	13,145
Between one and three years	26,346	13,595
Between three and five years	16,513	15,328
Over five years	21,044	6,001
	82,264	**48,069**

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

During the year ending 31 December 2009 €29.6 million (€24.8 million) was recognised as an expense in the consolidated income statement in respect of operating leases.

(c) At 31 December 2009, the Group had bank guarantees in place of €11 million (€7.6 million).

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

Note 27 • Pensions

All subsidiaries within the Group operate defined contribution schemes. Pension costs charged for the year for these schemes amounted to €3.8 million (€4.0 million).

Note 28 • Financial instruments and financial risk management

28.1 Financial risk factors

Overview

The Group has exposure to the following risks from its use of financial instruments:

- Market risk
- Credit risk
- Liquidity risk

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

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

I – Market Risk

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

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

(a) Foreign currency risk

Translation exposure

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

Transaction exposure

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

Strategic currency exposure

Strategic currency exposure arises in countries, which are not part of the European Monetary Union (EMU), or whose currencies are not pegged to the euro. When the exchange rate of the non-EMU currencies fluctuates against the euro, it affects the gross margin in those countries, as approximately 64 percent (75 percent) of the Group's products are sourced and produced within the EMU.

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

Management of the Company adopted a policy to hedge the estimated Russian Rouble (RUB) related exposure in respect of forecasted sales and expenses in Russia when this is economically efficient. The Company also hedges up to 100 percent of selected currency transaction exposures by entering into a variety of forward contracts in currencies in which subsidiaries of the Group transact business, to the extent that forward contracts are available in the market at a reasonable cost.

As at 31 December 2009 there were a variety of forward exchange contracts outstanding for an amount equivalent of €51.6 million (€88.2 million) with maturities ranging from January to December 2010, to hedge selected currency transaction exposures.

The Group does not apply hedge accounting for the variety of forward contracts amounting to €29.9 million at nominal value (€69.4 million), that economically hedge monetary assets and liabilities in foreign currencies, mainly intra-group. Both the changes in fair value of the forward contracts and the foreign exchange gains and losses relating to the monetary assets and liabilities are recognised in the consolidated income statement. At 31 December 2009, the fair value of these forward contracts was €0 million (€7.2 million gain).

During 2009 the Group entered into a series of forward exchange contracts totalling €21.7 million (€18.8 million) that hedge the 2010 forecasted operating expenses in Sweden. The Group does apply hedge accounting. For these forward contracts, changes in the fair value of the outstanding forward contracts are recorded in other comprehensive income. At 31 December 2009, the fair value of the forward exchange contracts was €0.5 million gain (€1.7 million loss).

During 2009 the Group closed in total €134.5 million (€202.9 million) forward contracts related to the above mentioned variety of forward contracts. The total net realised gain on all forward contracts closed in 2009 was €6.2 million (€0.1 million loss).

Exposure to currency risk

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

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

2008	CLP	CZK	DKK	KZT	PLN	RUB	SEK	SKK	UAH	IDR
In €´000 equivalents										
Intra-group trading balances	2,562	1,247	2,504	3,594	(4,752)	46,829	19,394	401	4,174	8,155
Trade receivables/(payables)					5,598		(6 133)			
Gross balance sheet exposure	2,562	1,247	2,504	3,594	846	46,829	13,261	401	4 174	8,155
Forward exchange contracts	–	(2,000)	(3,000)	*(2,441)	–	(40,000)	(9,400)	–	–	**(4,968)
Net exposure	**2,562**	**(753)**	**(496)**	**1,153**	**846**	**6,829**	**3,861**	**401**	**4,174**	**3,187**

* The Kazakhstan forward exchange contracts are € against USD.

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

The following significant exchange rates applied during the year:

	Average rate		Reporting date rate	
€	**2009**	**2008**	**2009**	**2008**
RUB	44.15	36.40	43.38	41.44
KZT	205.79	176.91	212.84	170.89
UAH	11.20	7.66	11.44	10.85
PLN	4.33	3.51	4.10	4.17

Sensitivity analysis

The Group trades in more than forty currencies. The Group has selected the top four sales operations and shows their impact on operating profit and equity. This analysis assumes that all other variables, in particular interest rates, the exchange rates of other currencies to the euro, the selling prices of the Oriflame entities in the countries under review, remain constant over the year. The analysis is performed on the same basis for 2008. 1 percent strengthening of the Euro against the following currencies on average over the reporting year would have increased (decreased) the Group operating profit or loss and equity as shown below.

Effect on Group operating profit in %	**2009**	**2008**
RUB	(1.5%)	(1.3%)
UAH	(0.4%)	(0.3%)
KZT	(0.3%)	(0.2%)
PLN	(0.1%)	(0.0%)

Effect on equity in € million	**2009**	**2008**
RUB	(0.1)	(0.2)
UAH	0.2	(0.1)
KZT	(0.1)	(0.1)
PLN	(0.5)	(0.4)

(b) Interest rate risk

Hedging

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

In 2008, the Group classified the interest rate swaps as cash flow hedge, which were stated at fair value. In 2009, the Group classified the interest rate swaps as cash flow hedge until the reimbursement of the underlying loan in December 2009. From then on the Group classified the interest rate swaps as used for trading. The fair value of outstanding interest rate swaps at 31 December 2009 is a liability of €0.2 million (€0.2 million).

Exposure to higher interest rates on €195 million of the Group's debt until June 2012 is hedged through interest rate cap agreements. The interest rate caps give protection against a rise of 6 month Euribor over 3.5 percent.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2008.

	Profit or (loss)		Equity	
Effects in €'000	**100 bp**	**100 bp**	**100 bp**	**100 bp**
31 December 2009	**increase**	**decrease**	**increase**	**decrease**
Variable rate interest bearing liabilities	(2,720)	2,720	–	–
Interest rate caps	1,283	(525)	–	–
Interest rate swaps	1,629	(1,629)	–	–
Cash flow sensitivity (net)	**192**	**566**	**–**	**–**
31 December 2008				
Variable rate interest bearing liabilities	(2,878)	2,878	–	–
Interest rate caps	–	–	–	–
Interest rate swaps	1,333	(1,333)	568	(517)
Cash flow sensitivity (net)	**(1,545)**	**1,545**	**568**	**(517)**

II – Credit risk

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

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

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

€'000	**2009**	**2008**
Accounts receivable and prepaid expenses (less derivatives)	109,916	97,692
Interest rate swaps for hedging	–	811
Interest rate caps for trading	698	–
Forward exchange rate contracts for trading	244	7,594
Forward exchange rate contracts for hedging	531	–
Cash and cash equivalents	107,213	68,455
Other long term receivables	3,538	3,267
	222,140	**177,819**

III – Liquidity risk

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

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

31 December 2009	Carrying amount	Contractual cash flows	Less than 1 year	1–3 years	3–5 years	More than 5 years
€'000						
Non-derivative financial liabilities						
Bank loans	262,043	(283,238)	(50,625)	(232,613)	–	–
Finance lease liabilities	129	(143)	(108)	(35)	–	–
Bank overdraft	121	(121)	(121)	–	–	–
Accounts payable and accrued expenses (less derivatives)	164,248	(164,248)	(164,248)	–	–	–
Derivative financial liabilities						
Forward exchange rate contracts for trading	259	(259)	(259)	–	–	–
Interest rate swaps for trading	168	(168)	(168)	–	–	–

31 December 2008	Carrying amount	Contractual cash flows	Less than 1 year	1–3 years	3–5 years	More than 5 years
€'000						
Non-derivative financial liabilities						
Bank loans	264,206	(284,141)	(34,323)	(249,818)	–	–
Finance lease liabilities	387	(437)	(330)	(107)	–	–
Bank overdraft	145	(145)	(145)	–	–	–
Accounts payable and accrued expenses (less derivatives)	153,557	(153,557)	(153,557)	–	–	–
Derivative financial liabilities						
Forward exchange rate contracts for trading	325	(328)	(328)	–	–	–
Forward exchange rate contracts for hedging	1,758	(1,781)	(1,781)	–	–	–
Interest rate swaps for hedging	983	(983)	(983)	–	–	–

Cash Flow hedges

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

	2009					2008				
€'000	Carrying amount	Expected cash flows	Less than 1 year	1–3 years	More than 3 years	Carrying amount	Expected cash flows	Less than 1 year	1–3 years	More than 3 years
Interest rate swaps:										
Assets	–	–	–	–	–	811	811	811	–	–
Liabilities ( )	–	–	–	–	–	(983)	(983)	(983)	–	–
Forward exchange rate contracts:										
Assets	531	531	531	–	–	–	–	–	–	–
Liabilities ( )	–	–	–	–	–	(1,758)	(1,758)	(1,758)	–	–

28.2 Capital risk management

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

28.3 Fair value estimation

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

	31 December 2009		31 December 2008	
€'000	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at amortised cost:				
Accounts receivable and prepaid expenses (less derivatives)	109,916	109,916	97,692	97,692
Other long term receivables	3,538	3,538	3,267	3,267
Cash and cash equivalents	107,213	107,213	68,455	68,455
Assets/liabilities carried at fair value:				
Interest rate swaps for trading:				
– liabilities	(168)	(168)	–	–
Interest rate swaps for hedging:				
– assets	–	–	811	811
– liabilities	–	–	(983)	(983)
Interest rate caps for trading:				
– assets	698	698	–	–
Forward exchange rate contracts for trading:				
– assets	244	244	7,594	7,625
– liabilities	(259)	(259)	(325)	(328)
Forward exchange rate contracts for hedging:				
– assets	531	531	–	–
– liabilities	–	–	(1,758)	(1,781)
Liabilities carried at amortised cost:				
Bank loans	(262,043)	(269,544)	(264,206)	(266,242)
Accounts payable and accrued expenses (less derivatives)	(164,248)	(164,248)	(153,557)	(153,557)
Finance lease liabilities	(129)	(140)	(387)	(423)
Bank overdrafts	(121)	(121)	(145)	(145)
	(204,828)	**(212,340)**	**(243,542)**	**(245,609)**
Unrecognized loss		(7,512)		(2,067)

Basis for determining fair values

The following summarizes the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the above.

Derivatives

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

Non-derivative financial liabilities

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

Accounts receivable and prepaid expenses

The fair value of accounts receivable and prepaid expenses is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

28.4 Fair value hierachy

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

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

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

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

€'000	Level 1	Level 2	Level 3	Total
31 December 2009				
Derivative financial assets	–	1,473	–	1,473
Derivative financial liabilities	–	(427)	–	(427)
	–	**1,046**	–	**1,046**
31 December 2008				
Derivative financial assets	–	8,405	–	8,405
Derivative financial liabilities	–	(3,066)	–	(3,066)
	–	**5,339**	–	**5,339**

Report of the independent auditors

To the Shareholders of Oriflame Cosmetics S.A.

Report on the consolidated financial statements

Following our appointment by the General Meeting of the Shareholders dated 19 May 2009, we have audited the accompanying consolidated financial statements of Oriflame Cosmetics S.A., which comprise the consolidated statement of financial position as at 31 December 2009 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 40 to 64.

Board of Directors' responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the Réviseur d'Entreprises

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the Institut des Réviseurs d'Entreprises. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Oriflame Cosmetics S.A. as of 31 December 2009, and of its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as set out on pages 40 to 64.

Other matter

Supplementary information, including the corporate governance report, included in the annual report has been reviewed in the context of our mandate. As there are no specific audit procedures carried out in accordance with all the standards described above, we express no opinion on such supplementary information. However, we have no observation to make concerning such supplementary information in the context of the consolidated financial statements taken as a whole.

Report on other legal and regulatory requirements

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

Luxembourg, 14 April 2010

KPMG Audit S.à r.l.
Réviseurs d'Entreprises

D.G. Robertson

Corporate governance report

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

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

General Meetings

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

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

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

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

The location for Oriflame General Meetings is Luxembourg. Oriflame does not enable for participation in General Meetings at a distance. Oriflame did however, in order to compensate for the above and in light of being listed on the Nasdaq OMX Nordic Exchange, host a shareholders' day in Stockholm on 4 May 2009 where shareholders/SDR holders had the opportunity to meet with members of the Board and Management and to ask questions related to the Annual General Meeting. In advance of the Annual General Meeting 2010 such shareholders' day will be held on 5 May (exact time and location will be announced in connection with the notice to the Annual General Meeting and will be posted on Oriflame's web site).

Board of Directors

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

The Board has established rules of procedure which set forth how and when the Board convenes, and includes instructions for

The Swedish Code of Corporate Governance as first published in December 2005, including any amendments and instructions issued by the Swedish Corporate Governance Board up until 31 December 2009.

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 2009, the Board reviewed and revised the rules of procedure for the Board as well as the instructions for the CEO, CFO and COO.

At the 2009 Annual General Meeting a nomination process was adopted for the election of Nomination Committee members, whose task is to prepare and submit proposals to the Annual General Meeting for the election of the Board members and the size of the fees paid to Board members and other Committees of the Board (currently being the Audit Committee and Remuneration Committee).

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

In accordance with Oriflame's Articles of Association, the Board shall consist of not less than three, and not more than ten, Board members without deputies. Currently, the Board consists of nine members, of which all were re-elected at the Annual General Meeting held on 19 May 2009. The Board consists of principal shareholders and persons independent of such shareholders. The CEO is also a member of the Board. Remuneration to the Chairman of the Board and the Board members is determined by resolution adopted by the Annual General Meeting. The 2009 Annual General Meeting resolved, as suggested by the Nomination Committee, that the remuneration would remain unchanged compared to the previous year, whereby EUR 62,500 be paid to the Chairman of the Board and that EUR 25,000 be paid to each respective remaining non-executive director for the period between the AGM 2009 and the AGM 2010. The Annual General Meeting further approved, as suggested by the Nomination Committee, to allocate EUR 10,000 to each member of the Audit Committee and EUR 5,000 to each member of the Remuneration Committee.

According to the rules of procedure, the Board shall convene at least four times per year, of which at least one meeting is to focus on business strategy issues. During the financial year 2009, Oriflame held fourteen Board meetings, out of which one was a strategy meeting. At the meetings the Board is assisted by a secretary who is not a member of the Board.

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

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

The CFO is always invited to the quarterly board meetings. Other members of the Oriflame Management are from time to time invited to meetings with the Board in order to present issues related to their specific areas of responsibility. Auditing issues are carefully considered by the Audit Committee and then reported to the Board of Directors. At least once per year the Board meets with the auditors without the CEO or other members of senior management being present. In 2009 such meeting took place on 10 February.

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

Board composition and attendance at Board and Committee meetings during 2009

Board member	Attendance		
	Board meeting	Remuneration Committee	Audit Committee
Robert af Jochnick (Chairman)	14	3	
Lennart Björk	8	3	
Magnus Brännström	14		
Marie Ehrling	14		4
Lilian Fossum	13	3	
Alexander af Jochnick	13		
Jonas af Jochnick	12		4
Helle Kruse Nielsen	13		4
Christian Salamon	14		4
Total number of meetings in 2009:	**14**	**3**	**4**

Nomination Committee and nomination process

At the Annual General Meeting held on 19 May 2009, the meeting resolved to approve the following nomination process for the election of the Nomination Committee:

- the Chairman of the Board shall convene the five largest shareholders of the Company, as it is known by the Company at that time, at the end of the third quarter of the year. These shareholders then have the right to appoint a member each of the Committee. If any of the five largest shareholders declines its right to appoint a member of the Committee, or if a member resigns from the Committee and is not replaced by a new member appointed by the same shareholder, the shareholder next in size shall be given the opportunity to appoint a member of the Committee. If several of the shareholders decline their right to appoint members of the Committee, no more than the eight largest shareholders need to be contacted. The Committee should be chaired by one of its members. No more than two of the Committee's members should also be members of the Board. If any of the shareholders having appointed a member to the Committee sells a not insignificant part of their shares in the Company and ceases to qualify as a large shareholder with rights to appoint a member to the Committee, the respective member should resign from the Committee, and a new member should be appointed by the next large shareholder. The Chairman of the Board shall, as part of the Committees' work, present any matters regarding the Board's work that may be of importance for the Committee's work, including an evaluation of the work of the Board and the requirements and skills set to be represented by the Directors, to the Committee;

- individual shareholders shall have the possibility to give suggestions regarding members of the Board to the Committee for further assessment within its scope of work;

- information regarding the composition of the Committee shall be made public at least six months before the Annual General Meeting; and

- the Committee shall have the right to charge the Company costs for recruitment consultants, if it is deemed necessary to get an adequate selection of candidates for members of the Board.

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

The Nomination Committee is intended to meet as often as necessary, but at least once per year. During 2009 the Nomination Committee met three times. All meetings were attended by each and everyone of the committee members.

In accordance with the nomination process approved by the Annual General Meeting, the Chairman of the Board, Robert af Jochnick, may be elected to the Nomination Committee, which did indeed occur in 2009. Per Hesselmark, Stichting af Jochnick Foundation; Åsa Nisell, Swedbank Robur AB; Peter Lindell, AMF; Hans Ek, SEB Investment Management AB, 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 work of the Nomination Committee constituted in 2009 comprised the following: As a basis for the Committee's work, information on the Company's operations and strategic focus was presented by the Chairman of the Board at the first meeting. The Chairman of the Board also reported on the Board's work during the year. As a basis for its work, the Nomination Committee also received a presentation and report of an evaluation conducted by an external consultant concerning the Board and its work. The evaluation revealed that the current Board Members represent a broad spectrum of expertise with genuine industry knowledge and extensive financial know-how with regard to international conditions and markets. The evaluation also showed that the attendance rate at Board meetings was high and that all Board members demonstrated a high level of commitment. After evaluating the work of the Board the Committee drew the conclusion that the Board has been functioning well and that the critical competences have been adequately represented on the Board. The aim of the principal owners is that elected Board members shall represent knowledge and competence relevant for Oriflame's operations. Independent Board members are included in full compliance with requirements that apply for publicly listed companies in Sweden.

The Nomination Committee has thereafter formulated proposals for the Annual General Meeting to be held on 19 May 2010. The 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.

The Nomination Committee has decided to propose to the 2010 Annual General Meeting that it re-elects current board members Robert af Jochnick (Chairman), Magnus Brännström, Marie Ehrling, Lilian Fossum, Alexander af Jochnick, Jonas af Jochnick, Helle Kruse Nielsen and Christian Salamon. Lennart Björk has declined re-election. The Nomination Committee has furthermore proposed to elect Anders Dahlvig as new board member. Being the former CEO of the IKEA Group Dahlvig brings extensive experience from the fields of consumer marketing and operations. Anders Dahlvig, Marie Ehrling, Lilian Fossum, Helle Kruse Nielsen and Christian Salamon are independent of the Company, the Company's Management and the Company's large shareholders.

Magnus Brännström is not independent from the Company, being the Company's CEO. Robert, Jonas and Alexander af Jochnick are not independent from the Company nor from its major shareholders: Robert and Jonas af Jochnick are co-founders of the Company and together with other members of the af Jochnick family they constitute the largest shareholder of the Company. They have been members of the Board for more than 13 years. Alexander af Jochnick was an employee of the Company from 1999 to 2007. Alexander af Jochnick continues to be involved in the Company outside his duties as a Board member on a request and availability basis determined by the CEO. Remuneration for his assignments outside the directorship is on a time spent basis and does not exceed EUR 100,000 per annum and the Board is continuously informed of his assignments for the Company.

After a review of the Board's compensation the Nomination Committee resolved to propose to the 2010 Annual General Meeting to leave the board and committee remuneration unchanged.

The Nomination Committee resolved to propose to the 2010 Annual General Meeting that the current Auditors, KPMG, be re-elected.

Remuneration Committee

Each year following the Annual General Meeting, the Board appoints a Remuneration Committee. The Remuneration Committee elected in 2009 consisted of the same three members as the preceding two years, being Lennart Björk, Lilian Fossum and Robert af Jochnick. The task of the Committee is to review remuneration and other material terms of employment for the Company's executive directors, senior executives and other key personnel. Based on its reviews the Remuneration Committee prepares proposals for resolutions, subject to final approval by the Board. The Remuneration Committee meets when necessary. During 2009 the Remuneration Committee has met three times.

Audit Committee

The Company's Audit Committee is appointed by the Board each year following the Annual General Meeting. The Audit Committee reviews internal and external information, works with the external Auditor on the audit plan and internal controls, and discusses with management the audit results. The Audit Committee reviews matters related to the Company's and the Group's accounting, financial reporting and internal control as well as financial risk exposure and risk management. It furthermore reviews the work of the Auditors. Based on their reviews the Audit Committee prepares proposals for resolutions, subject to final approval by the Board. The Audit Committee meets at least biannually. In 2009 the Audit Committee met four times. The composition of the the Audit Committee has remained unchanged since 2007 and comprises Marie Ehrling, Jonas af Jochnick, Helle Kruse Nielsen and Christian Salamon. Christian Salamon has acted chairman of the committee.

Auditor

The Annual General Meeting held on 19 May 2009 resolved to elect KPMG Audit S.à r.l. as independent auditor in respect of the statutory accounts and consolidated financial statements until the close of business of the next Annual General Meeting to be held on 19 May 2010. KPMG Audit S.à r.l. is the Luxembourg member firm of KPMG International and has been engaged as Oriflame's independent auditor since 21 May 2007. The KPMG Audit S.à r.l. team is headed by Dennis Robertson. During the past three years, KPMG Audit S.à r.l. has provided advice to the Company on fiscal matters. Apart from his engagement with Oriflame, Dennis Robertson holds no assignments for any persons affiliated with Oriflame or for any of Oriflame's larger shareholders. Dennis Robertson and members of his team met with the Board on 10 February 2009 and on 9 February 2010 in order to present their findings and report on their views on the quality of Group reporting and affiliated matters related to Group auditing. KPMG members have also regularly met with the Audit Committee during the year.

Oriflame Management and Organisation

CEO and Corporate Committee

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

The Corporate Committee is responsible for the implementation of the Group strategy, business control and the distribution of resources between the regions. The Corporate Committee is headed by the CEO. In addition to the CEO, the Corporate Committee consists of Jesper Martinsson (Chief Operating Officer) and Gabriel Bennet (Chief Financial Officer).

Executive Business Review

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

Regional management

Oriflame distributes its products through a network of more than 3 million independent sales consultants in 62 countries. Group segmentation is based on geographic cosmetics sales by region, currently being CIS & Baltics, EMEA, Asia and Latin America. Each region has its own staff and resources to facilitate its effective control and is headed by a Regional Director. Each Regional Director reports to the COO.

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

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

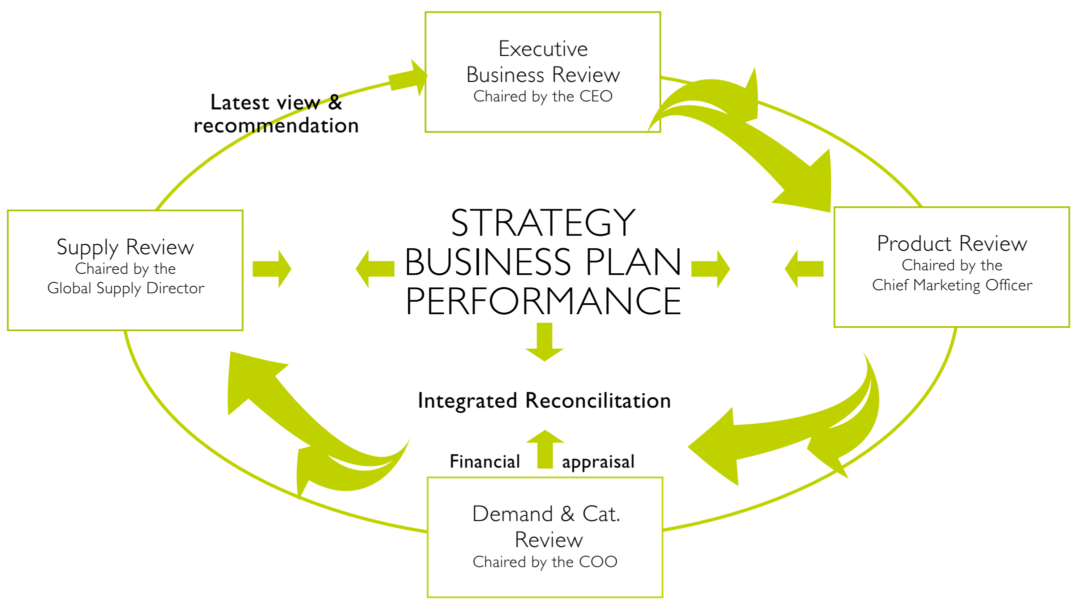
Global Support and Service

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

Principles of remuneration for senior executives

Salaries

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



Fixed and variable components

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

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

Pensions

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

Non-monetary benefits

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

Risk management

Strategic and operational risks

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

Oriflame's operations in the CIS region accounted for over 50 percent of Group sales and profits in 2009. The Company's business could be materially adversely affected by political and economic instability in this region.

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

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

Financial risks

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.

Comply or Explain

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

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

Report on internal control and monitoring

Control environment

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

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

The Audit Committee monitors effectiveness of internal controls, considers critical accounting questions and regulatory compliance. The auditors are invited to participate in the regular meetings of the Audit Committee.

Control structure

Control activities have been implemented in financial reporting. Each region and the Supply division has appointed a controller who reports directly to the CFO. The controllers are responsible for the implementation and maintenance of internal controls as well as reporting in accordance with Group guidelines and ensuring that local laws and regulations are followed. They monitor the operations performing analytical controls such as follow-up on forecasts and budgets, analysis of results and balance sheet items. The results of this work are regularly reported to management and Group functions concerned. The functions regularly monitor their respective areas of responsibility in order to identify potential risks and errors.

Information and communication

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

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

Follow up

In 2008 the Audit Committee approved and together with the Executive Committee organized and launched internal control project and risk management assessment of the Company. The project has several stages starting with review of Financial Statement Risk Assessment (FSRA). A comprehensive FSRA was performed by one of the "Big Four" audit firms supported by appointed Steering Group from the Company. The review focused on risks that could have a material impact on the financial statements. Gap analysis between existing controls and necessary controls was performed at most significant locations. A self-assessment questionnaire encompassing significant financial risks and suggested controls at Oriflame was produced. The questionnaire was completed by Oriflame entities as at the end of 2008. The results were reviewed by the regional controllers. In 2009 documentation of process flows at pilot locations and identification of company level monitoring controls were performed. This stage was concluded with the preparation of self-assessment programs on lower risk items that would enable on-going testing performed by management.

The project continues in 2010 with risk-based evaluation and test of the operating effectiveness of the documented controls in pilot companies. Self assessment and other monitoring activities will be used as evidence of testing for low-risk controls. The testing will be embedded in the work performed by the regional controllers routinely and will be supported by audit plan and self assessment audit programs.

For 2010, the aim is to finalize the process descriptions and self-assessment questionnaires for sales companies in four areas: Inventory processes, Cash and bank processes, Sales processes, Bonus and performance discount processes. The process description defines clear internal controls in all areas of the processes and reliable evidence. The four process descriptions and the self assessing questionnaires will be distributed to the ten biggest markets. Based on the result of the self assessment, the questionnaire will be launched in the remaining sales entities and actions will be taken where needed.

The purpose of the project is to further develop a sustainable control process embedded into the Company's business rather than through the introduction of a separate internal audit function.

The Board resolved in its meeting held on 9 February 2010 to, in accordance with the recommendation from the Audit Committee, continue with the further development of a formal internal audit function.

This report on internal control and monitoring has been reviewed by Oriflame's auditors.

Board of directors

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 Credus Management AB, Mint Capital Ltd and the af Jochnick Foundation.

Board member of Medicover Holding S.A., the World Childhood Foundation, GoodCause Foundation, GoodCause Holding AB and Research Institute of Industrial Economics.

Shareholding in Oriflame as at 31 December 2009 (including immediate family members): 3,973,851.

Not independent from the Company nor its major shareholders.

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 2009 (including immediate family members): 20,000.

Independent from the Company and its major shareholders.

Marie Ehrling

Born in 1955.

Elected to the Board in 2007.

Member of the Audit Committee.

BSc Stockholm School of Economics.

Board member of Nordea Bank AB, Securitas AB, Schibsted ASA, Loomis AB, Investment in Sweden Agency ISA, Safegate AB, World Childhood Foundation, Business Executive Council IVA and CASL at Stockholm School of Economics.

Shareholding in Oriflame as at 31 December 2009 (including immediate family members): 300.

Independent from the Company and its major shareholders.

Lilian Fossum

Born in 1962.

Elected to the Board in 2007.

Member of the Remuneration Committee.

BSc in Business Administration Stockholm School of Economics.

Member of the board of Axel Johnson International AB, Holmen AB, Novax AB, Retail and Brands AB (as of 2009), Servera AB, Svensk BevakningsTjänst AB and Åhléns AB.

Executive Vice President and CFO of Axel Johnson AB.

Shareholding in Oriflame as at 31 December 2009 (including immediate family members): 500.

Independent from the Company and its major shareholders.

Alexander af Jochnick

Born in 1971.

Elected to the Board in 2007.

MSc in Business Administration Stockholm School of Economics.

Member of the board of Cibes Lift AB and Credus Management AB.

Founder and board member of Serious Nature AB.

Shareholding in Oriflame as at 31 December 2009: 418,884.

Not independent from the Company nor its major shareholders.

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 and Dr h c Stockholm School of Economics.

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

Shareholding in Oriflame as at 31 December 2009 (including immediate family members): 3,611,317.

Not independent from the Company nor its major shareholders.

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 New Wave Group AB, Gumlink A/S, Swedbank, Aker BioMarine ASA

Shareholding in Oriflame as at 31 December 2009: 1,000.

Independent from the Company and its major shareholders.

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 and NCAB Holding AB.

Board member of Lamiflex International AB, Unlimited Travel Group AB and Oresa Ventures S.A. Advisory board member of Sustainable Technologies Fund and Investment. Committee member of Fagerberg & Partners.

Shareholding in Oriflame as at 31 December 2009: 9,240

Independent from the Company and its major shareholders.

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 2009 (including immediate family members): 224,030.

Not independent from the Company being CEO.

Christian Salamon Lilian Fossum Alexander af Jochnick Helle Kruse Nielsen Robert af Jochnick Magnus Brännström Jonas af Jochnick Marie Ehrling Lennart Björk

Global senior management team

Robbin Chibba
VP Finance – Latin America

Tatiana Egorova
VP Finance – CIS & Baltics

Rolf Berg
EVP Global Human Resources

Magnus Brännström
CEO & President

Pontus Muntzing
VP Finance – Asia

Carlos Gonzalesguerra
VP Finance – EMEA

Torsten Hustert
VP Finance Marketing and R&D

Georgi Karapanchev
VP Group Finance

Michaela Beltcheva
VP Legal

Gabriel Bennet
CFO

Christian Jönsson
VP Information Technology

Kjell Blydt Hansen
VP Finance Supply

Michael Cervell
SVP
Direct Sales

Mats Palmquist
SVP and Head
of CIS & Baltics

Thomas Ekberg
SVP and
Head of Asia

Pavlina Marinova
VP
Sales Operations
Development

Jesper
Martinsson
COO

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

Johan
Nordström
SVP and
Head of EMEA

Sandro Ragonesi
SVP and
Head of Latin
America

Maciej Zyhatynsky
VP Logistics

Joanna Poplawska
SVP
Manufacturing

Jonathan Kimber
EVP
Global Supply

Edwin Koehler
VP Purchasing

Didier Jourdan
VP Planning

Stephen Syrett
VP
Catalogue &
Forecasting

Stefan Karlsson
EVP
Business
Development

Mary Lord
SVP
Research &
Development

Johan Rosenberg
EVP
Global Marketing
and R&D

Neil Holden
VP
NPD & Artwork

Jolanta Pastor
VP
Product Marketing

Yulianna Sokolovskaya
VP
Marketing –
CIS & Baltics

Financial calendar 2010

- First quarter 2010 on 21 April
- Annual General Meeting on 19 May
- Second quarter 2010 on 11 August
- Third quarter 2010 on 26 October

Distribution principles

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

Front cover:
One of the new
corporate brand images.

Accessories launch **2009**


oriflame
TIME REVERSING
InTense
EVERY DAY PERFECTOR CREAM SPF 12
ß-Prostimuline™ & Astaxanthin

oriflame

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

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