



ORIFLAME
— SWEDEN —

Annual REPORT 2016

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I am proud that we concluded the first fifty years of Oriflame with a strong 2016. We have a solid foundation and strategy for the future and I am looking forward to the journey.



Alexander af Jochnick,
Chairman of the Board



The strategic product categories Skin Care and Wellness were the fastest growing categories during 2016, fuelled by successful sales of sets and routines.

1,249

million € in sales during 2016

50

Oriflame was founded in Sweden in 1967 by the brothers Jonas and Robert af Jochnick and their friend Bengt Hellsten. They wanted to give people the opportunity to benefit from great skin care and cosmetics through products inspired by nature and the natural beauty of Sweden. Rather than investing in a chain of stores, they decided to move the retail operations into the homes of Swedish consumers – shifting from a traditional retail model to a social model fuelled by relationships and personal recommendation. Oriflame is, and has always been, about people being connected to one another in one large community.

Today, 50 years later, Oriflame is a global beauty company selling direct in more than 60 markets. Its portfolio of beauty and wellness products is marketed through approximately 3 million independent Oriflame Consultants, generating sales of €1,249 million during 2016. Oriflame's business model is the quintessence of the modern networking society – communicating face-to-face as well as through modern digital means such as social media.







THE YEAR *in brief*



The year in brief:

OPERATIONAL *highlights*

During the year, important strategic initiatives were taken, focusing on:

- Strategic product categories
- Driving sustainability across the business
- Continuing the online development
- Digital business transformation in the IT and finance areas
- Capturing manufacturing opportunities

FOCUSING ON STRATEGIC PRODUCT CATEGORIES

The strategic product categories Skin Care and Wellness were the fastest growing categories during the year, fuelled by successful sales of sets and routines. The rollout of the flagship brand NovAge continued, contributing to increased sales of Skin Care sets as well as improved profitability within the category. Growth in Skin Care was also supported by the launch of the new Hero brand Innoage in China. Skin Care remained the largest category in terms of sales, while Wellness Pack Woman was the product that accounted for the largest contribution to full-year sales for the third consecutive year.

DRIVING SUSTAINABILITY ACROSS THE BUSINESS

Respecting both people and the planet is an integral part of the Oriflame brand and culture, with several important sustainability initiatives taken during the year. The sustainability flagship range Eco beauty was successfully re-launched and the focus continued on sourcing of more sustainable materials.



CONTINUING THE ONLINE DEVELOPMENT

In 2016, efforts were focused on the continued development and implementation of the company's new cloud-based e-commerce platform. Several new apps were launched during the year, noting substantial download volumes and high utilisation rates. The Oriflame Makeup Wizard app allows the user to virtually try on Oriflame's range of colour cosmetics using the device camera and advanced face tracking functionality prior to purchase.

DIGITAL BUSINESS TRANSFORMATION

During the year, Oriflame decided to outsource its IT and financial operational services to IBM, in order to support the continued digital business transformation of Oriflame. IBM will bring new levels of customer focus, productivity and automation to Oriflame's technology and internal processes. The new partnership will cover the entire Oriflame Group and is expected to generate savings for Oriflame that can be reinvested in continued IT development.

CAPTURING MANUFACTURING OPPORTUNITIES

A separate manufacturing company named Cetes Cosmetics AG was established during the year. The new structure will enable Oriflame to achieve more efficient manufacturing and capacity utilisation. The main scope of Cetes Cosmetics AG is to continue to support the organic growth of Oriflame while leveraging the manufacturing assets with external volumes.

The year in brief:

FINANCIAL *highlights*



Despite challenging market and macro conditions, Oriflame returned to Euro growth, delivered double-digit local currency growth and increased profitability during 2016. The strong performance continued in the growth regions of Asia & Turkey and Latin America, and a stabilisation could be seen in Europe & Africa. The focus in CIS remained on returning to sustainable growth and improved profitability and progress was made on realising the implemented price increases. 2016 was also a year of continued healthy cash flow and reduced net debt.

- Local currency sales increased by 12%, Euro sales increased by 3% to €1,249.4m (€1,211.6m).
- Operating margin was 9.5% (7.5%, adjusted* 8.3%), impacted by -250 bps from currencies, and operating profit was €119.2m (€90.6m, adjusted* €100.2m).
- Net profit was €66.7m (€34.2m, adjusted** €43.2m) and diluted EPS was €1.18 (€0.62, adjusted** €0.79).
- Cash flow from operating activities amounted to €113.1m (€122.2m).

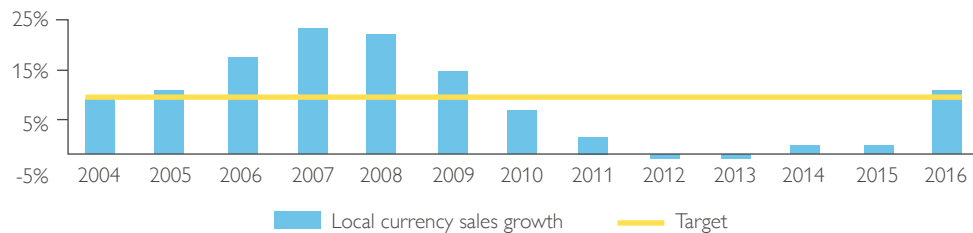
LONG-TERM FINANCIAL TARGETS

Oriflame aims to achieve local currency sales growth of approximately 10% per annum and an operating margin of 15%.

*Adjusted for non-recurring items of €9.6m during 2015.

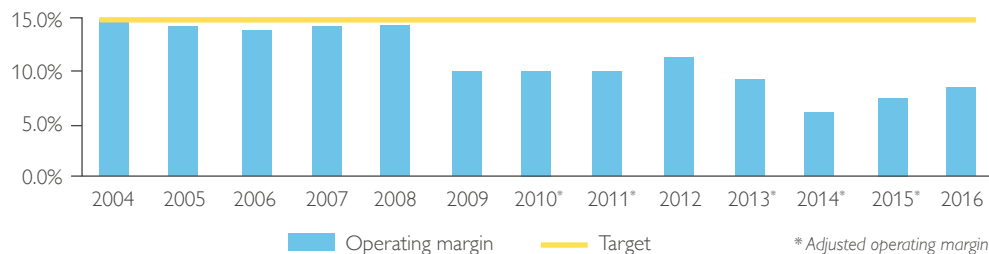
**Adjusted for additional non-recurring tax items of (€0.5m) during 2015.

Local sales development



Target:
10%

Operating margin



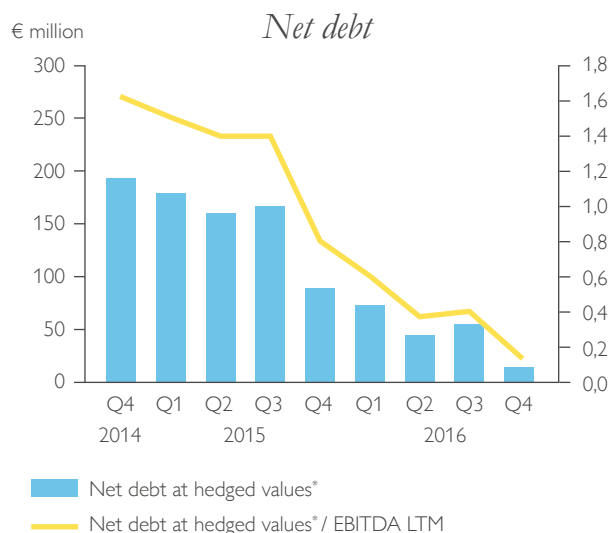
Target:
15%

Local currency sales growth drivers



NET FINANCIAL POSITION AND DIVIDEND PROPOSAL

During the year, the net debt was further reduced, reaching a net debt at hedged values/EBITDA of 0.1 by the end of the year. Given the company's strong financial position and with the Net debt/EBITDA below the target range of 0.5 to 1.5, the Board of Directors will propose to the 2017 AGM a total dividend of €1.50 per share for 2016, of which €1.00 (€0.40) per share is to be considered an ordinary dividend and €0.50 to be considered an extra dividend. The ordinary dividend is to be paid in equal quarterly instalments of €0.25 starting in the second quarter of 2017, and the extra dividend is to be paid during the second quarter of 2017. The dividend instalments will be distributed from the company's Capital Contribution Reserve and are thereby not subject to any Swiss withholding tax.



*Adjusted for fair value movements of the USD private placement notes

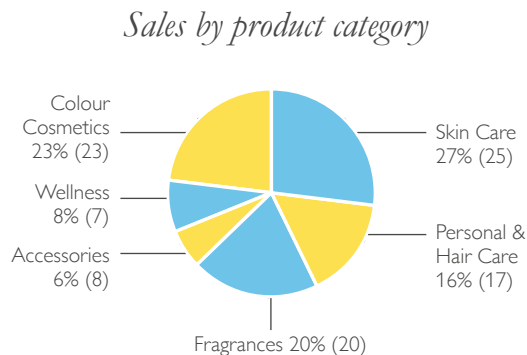
STRATEGIC PRODUCT CATEGORIES PERFORMED WELL

During the year, the product categories continued to develop in line with the strategic direction, with the strategic categories Skin Care and Wellness increasing their share of the full-year sales.

In Colour Cosmetics, several key launches were carried out under The ONE brand. Strong performance was noted for The ONE Lip Sensation, The ONE Colour Stylist and the limited edition mascara THE ONE 5-in-1 Wonderlash Bold Intensity.

The performance in the Fragrance category was primarily driven by newness. During the year, the new upper mass segment brand Wonderflower Eau De Toilette was introduced and an extensive product launch was carried out for My Destiny Eau De Parfum.

Some of the bestselling brands within the Personal and Hair Care category were Nature Secrets and Discover, driven by successful launches in the bath & shower segment. During the year, the foot-care pillar brand Feet Up was relaunched.





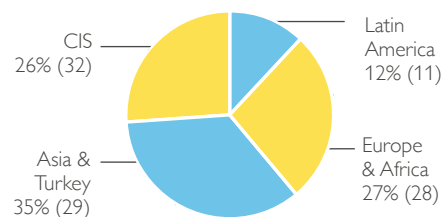
KEY figures

€ million unless stated otherwise	2016	¹⁾ 2015	Change
Sales	1,249.4	1,211.6	3%
Gross profit	882.9	838.3	5%
Gross margin, %	70.7	69.2	
EBITDA	148.2	117.4	26%
Operating profit	119.2	90.6	31%
Operating margin, %	9.5	7.5	
Adjusted operating profit	119.2	100.2	19%
Adjusted operating margin, %	9.5	8.3	
Net profit	66.7	34.2	95%
Adjusted net profit	66.7	43.2 ²⁾	54%
Earnings per share, diluted, €	1.2	0.6	90%
Adjusted earnings per share, diluted, €	1.2	0.8 ²⁾	50%
Cash flow from operating actives	113.1	122.2	-7%
Net interest-bearing debt	82.3	171.6	-52%
Net debt at hedged values/EBITDA	0.1	0.8	-88%
Registered actives, '000	3,006	3,246	-7%

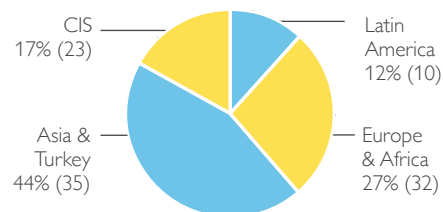
¹⁾ Adjusted for non-recurring items of €9.6m.

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

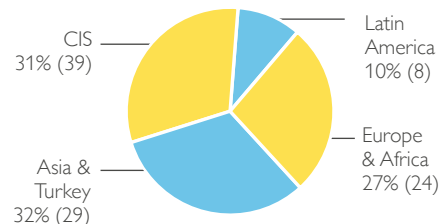
Regional sales



Regional operating profit

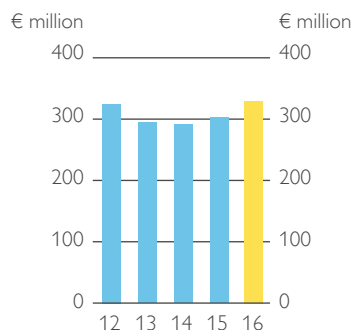


Registered actives

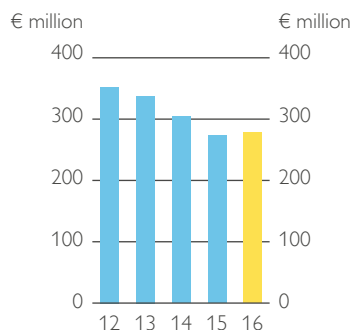


SALES BY *product category*

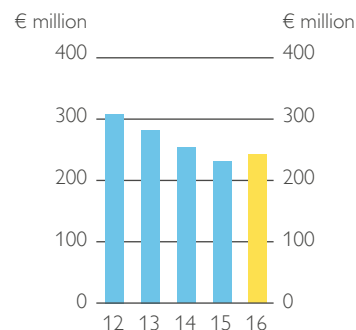
Skin Care



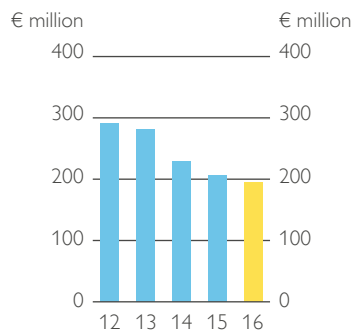
Colour Cosmetics



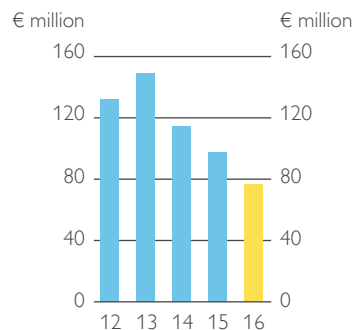
Fragrances



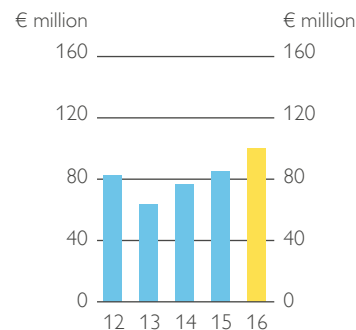
Personal & Hair Care



Accessories



Wellness





Statement
from the CEO:

Delivering long-term, profitable

GROWTH

2016 was a year in which we made significant steps to improve the overall position of Oriflame and when the success of our online leaders and the sales of Skin Care and Wellness sets and routines reached new levels. It was a year when we returned to Euro growth, delivered double-digit local currency growth and increased profitability – despite challenging market conditions and a deteriorating macro environment. We leave 2016 as a stronger company with a geographical footprint that enables long-term profitable growth, ready to capture the great opportunities of tomorrow.

RECOMMENDATION MODEL ADDS VALUE TO THE CUSTOMER'S CHOICE

In a digital world where almost everything can be bought online at any time, the Oriflame recommendation model is more relevant than ever. We believe that a recommendation from a friend or someone you trust is an even greater trigger online. Brands need to add value to the customers beyond offering the lowest price. This is where Oriflame's Skin Care and Wellness sets and routines are great examples of products focusing on

the user benefits of combining several products to get the best individual results. These categories drive sales and profitability, and create brand value and loyalty – thereby supporting the growth of the company as well as earnings opportunities for our Consultants.

IT HAS TO BE WORTH IT!

We are facing a new economic environment where people dream of becoming their own boss and, in the future, are more likely to have multiple income streams rather than relying on a full-time job. We believe that this new environment brings opportunities for Oriflame – a company that has made entrepreneurship accessible over the past half-century. At the same time, we recognise that we are now competing with a broader range of companies that offer an income opportunity and acknowledge the importance of providing an earnings proposition that makes it worthwhile for our Consultants. With Oriflame's remuneration model, our Consultants are not only compensated in relation to the number of hours they work – they also have the possibility to achieve a compounded effect by sharing their knowledge and educating others. In addition, we offer personal and professional development and a strong community, leading to a feeling of social belonging and recognition.





SOCIAL SELLING MODEL WITH ONLINE AS A CATALYST

With a business model based on social selling, a strategy focused on digital opportunities is key to success and, during the year, our digital channels and tools remained the primary interaction point between Consultants and customers. Oriflame's digital strategy has a consultant-centric approach, which means that the initiatives are shaped with the Consultants' needs in mind, empowering them to sell, recruit and manage their business using the latest digital tools. This also means that we aim to reach the online beauty shopper segment mainly through our Consultants, thereby leveraging the power of personal recommendation in a digital environment. This can, for example, take the form of a Consultant sharing inspiring and insightful beauty content – connected to a relevant product – with their friends through social media. The product can then either be delivered personally by the Consultant or shipped directly to the customer by Oriflame.

A BRAND AND CULTURE- DRIVEN COMPANY

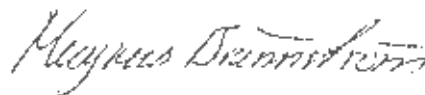
A company may have outlined the right strategy, but without brand and culture-driven people, it will still fail. Many things might have changed since Oriflame was founded in 1967, but the strong culture remains the same, continuously enabling us to turn our strategy into organisational behaviour. Sustainability has always been an integral part of the Oriflame brand and I am very proud of the various initiatives taken that are helping us to operate our business in a more sustainable way. Paper and board continued to be a key focus area during 2016, with 99% of the catalogue paper originating from credibly certified sources and 97% of the display packaging cartons and leaflets being sourced from FSC™ certified forests.

DELIVERING LONG-TERM PROFITABLE GROWTH

Oriflame is essentially a growth-oriented company and while we aim for sustainable growth in all of our markets over time, we believe that the greatest potential comes from leveraging the strong momentum in our high-growth regions of Asia & Turkey and Latin America. During the year, Oriflame took efficiency measures by establishing the separate manufacturing company Cetes Cosmetics AG to improve the capacity utilisation in manufacturing. Production efficiencies rendered from these initiatives will, combined with continued positive price/mix effects and sales leverage, enable us to deliver on our financial targets – achieving long-term profitable growth.

READY FOR THE NEXT 50 YEARS

To summarise, I feel confident that we are now leaving some challenging years behind and I would like to thank all of our employees, Consultants, partners and shareholders for the past year and I look forward to the years ahead. 2017 marks the 50th anniversary of Oriflame and as we reach this milestone, we are stronger than ever before, equipped with a good underlying momentum, solid strategy and strong financial position. At the same time, many of our markets remain volatile and are experiencing highly uncertain geopolitical and macroeconomic conditions. 2017 has started in a promising way and we will continue to deliver on our growth strategy to sharpen our offering and improve our effectiveness – with the aim of becoming the #1 beauty company selling direct.



Magnus Brännström, CEO & President

Customer-favourite Tender Care Protecting Balm is one of the most popular products in the Oriflame portfolio, with one Tender Care being sold every 2 seconds. In connection with Oriflame's 50 year celebration, a golden anniversary edition was created.







Company OVERVIEW & STRATEGIC *direction*

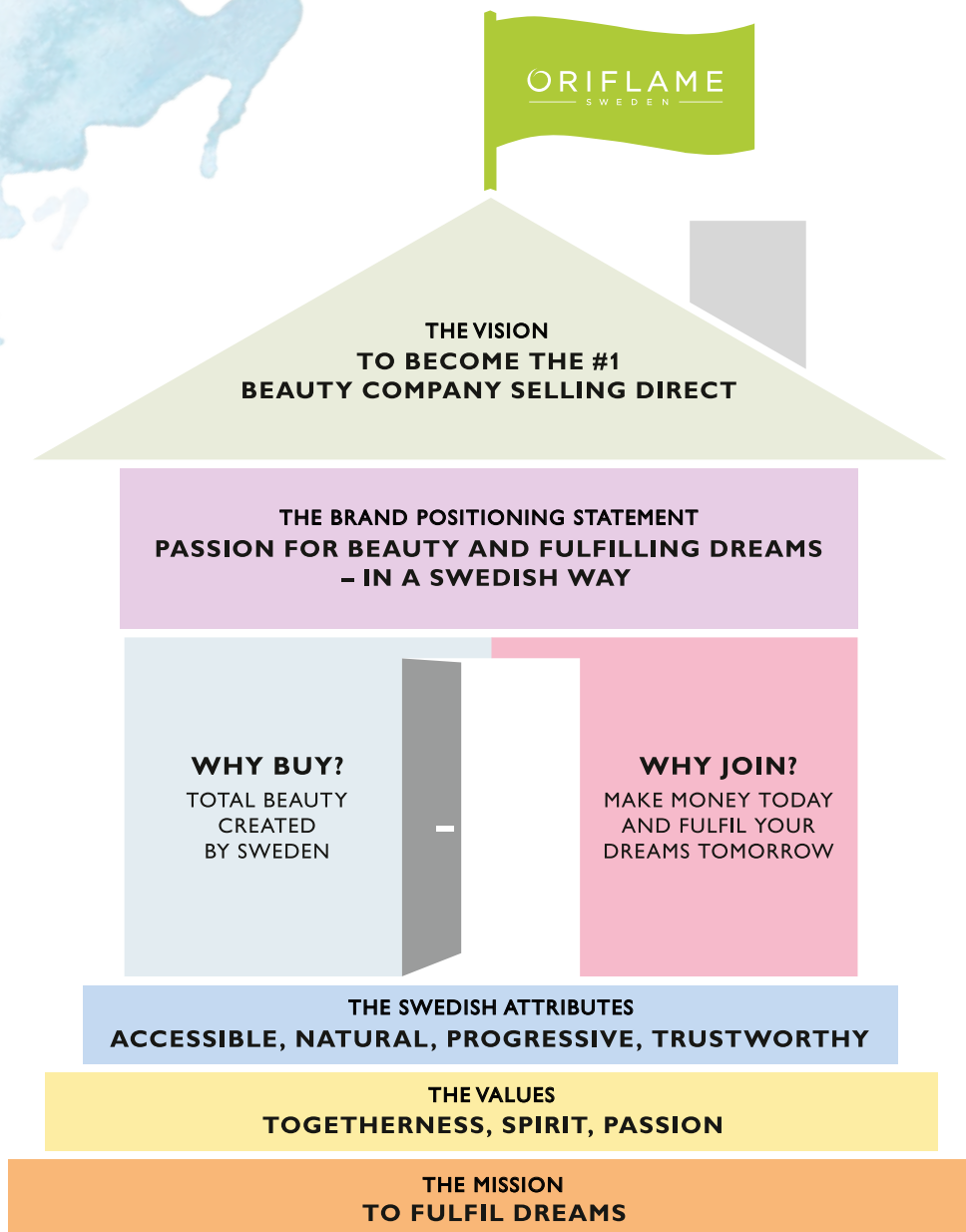


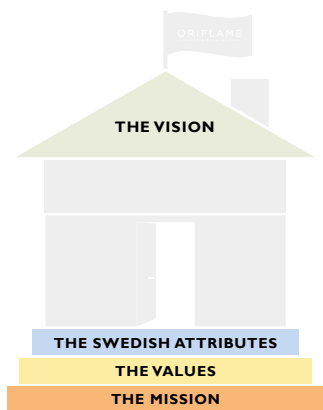
This is ORIFLAME

The main components of the Oriflame brand are displayed as building blocks of the Oriflame house. The house is built on the Oriflame fundamentals: the Mission, the Values and the Swedish attributes. The fundamentals define Oriflame as a company and summarise the most important and long-lasting qualities of the Oriflame community, describing what has made Oriflame great in the past and what will carry the company successfully into the future.

Entering the house by the door, we gain access to the floor containing the Oriflame beauty and business offering. This is the first point of contact for customers and Consultants with Oriflame and where decisions are made regarding "Why Buy?" and "Why Join?". Combined with the company fundamentals, the beauty and business offerings are what makes the Oriflame brand unique. This uniqueness is summarised in the Brand Positioning Statement: Passion for beauty and fulfilling dreams – in a Swedish way.

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





THE VISION

**To be the #1 beauty
company selling direct**

THE MISSION

To fulfil dreams

THE VALUES

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

TOGETHERNESS

Togetherness is about inspiring a dynamic and energetic community. Believing that working with others achieves more than working alone. Having the ability to absorb and respect opinions and beliefs that are different from one's own in order to move forward.

SPIRIT

Oriflame is a company built by true entrepreneurs. Spirit in Oriflame is characterised by a hard-working and winning mentality and a deep belief that if you try hard enough, everything is possible. Driven by a constant sense of curiosity, unable to leave things unresolved. Spirit is not being afraid of making mistakes, but having the courage to try things never done before.

PASSION

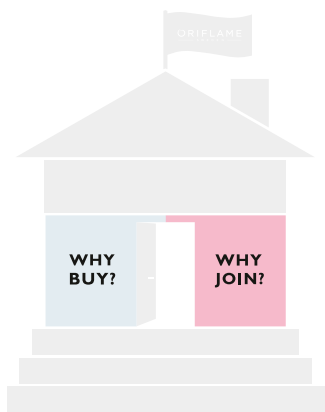
Passion is the energy and self-confidence that turn possibilities into realities. More than logic or what is rational, this is the feeling inside that propels actions and guides decisions. Passion means being on fire for the things you do. Passion instills the belief that you should dream and that dreams can be achieved. Passion inspires, sustains and changes lives.

THE SWEDISH *attributes*

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

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





THE BEAUTY *offering*

Total Beauty Created by Sweden

Oriflame believes in total beauty – uniting looking beautiful and feeling good, and encompassing the company's Swedish heritage. Oriflame offers a wide and dynamic assortment of high-quality products that leverage the best of nature and advanced science, spanning over six different categories: Skin Care, Colour Cosmetics, Fragrance, Personal & Hair Care, Accessories and Wellness.

The beauty offering is developed with the Consultants in mind, supporting the Oriflame recommendation model and thereby driving activity and retention. The products should be easy to buy and recommend to others because of their high quality, great product stories and unique product benefits – providing a compelling and relevant proposition. All products serve a specific purpose in the product portfolio and across various sales tools

and methods. Some products may play the role of door-openers and activity-drivers, well-suited for the catalogue. Some may drive excitement to attract customers via social media, while others are intended to strengthen the brand and the product culture.

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



The Oriflame Skin Care sets are differentiated based on the expertise and deep knowledge on how to prevent and address different signs of ageing through targeted sets.



THE BUSINESS *opportunity*

Make Money Today and Fulfil Your Dreams Tomorrow

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

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





SUSTAINABILITY

As an inseparable part of its future success, Oriflame is integrating sustainability throughout its operational framework and business strategies. To expand and deepen its work on sustainability, Oriflame adopted a new comprehensive sustainability strategy in 2013, with a broad set of commitments covering product development, social issues and environmentally focused targets. The strategy is based on a materiality assessment and focuses on three areas with the greatest relevance for Oriflame, and where initiatives can have the greatest impact. For each of the key areas, Oriflame has set a range of commitments and time-bound targets designed to improve performance and move the company closer to its long-term vision of becoming sustainable.

1. People

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

2. Products

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

3. Planet

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

Sustainability has a permanent place on the management agenda with regular review and follow-up of targets and commitments. While progress is being made, Oriflame recognises that this is a continuous journey – there is still much more to be done and new challenges lie ahead. More information about the company's sustainability work can be found in the Sustainability Report.



Sustainability ACHIEVEMENTS

Oriflame's sustainability initiatives continued to progress and gain recognition from external stakeholders in 2016.

- Oriflame's sustainability flagship range EcoBeauty was re-launched in 2016. The Skin Care range is approved by leading independent organisations, Ecocert® as natural or organic certified and the carton board is sourced from Forest Stewardship Council (FSC™) certified forests. In addition, the face and eye cream contain Fairtrade® certified ingredients.
- The company continued to take steps to support the production and usage of sustainable palm oil products. In 2016, over 8% of palm oil products used in finished goods was certified sustainable by Mass Balance (up from 4%* in 2015). The remaining usage was covered by GreenPalm Credits. In the WWF palm oil scorecard 2016 Oriflame scored 9/9, among the industry best.
- Paper and board continues to be a key focus area. In 2016 99% of Oriflame's catalogue paper came from credibly certified sources and 97% of the display packaging cartons and leaflets were sourced from FSC™ certified forests.
- Oriflame achieved a score A, Leadership for timber, and a score B, Management for palm oil, in the CDP's forests program, a recognition of Oriflame's actions to responsibly source forest-based products.
- In the CDP 2016 climate change evaluation, Oriflame was awarded a score B – reflecting the company's actions to reduce carbon emissions and mitigate the business risks of climate change.
- Oriflame's main office in Moscow was granted BREEAM In-Use certification in May 2016. The certification helps drive sustainable improvements through operational efficiency.
- Since 2014, Oriflame is only using natural origin exfoliants in its new product developments. During 2016 a number of scrub products were launched containing natural origin materials such as castor wax, olive stone and sugar.
- Through sales of the fragrance Tenderly Promise, Oriflame continued to support the World Childhood Foundation. The aim is to help children in need by raising €1 million over a three-year period.

*The method to calculate palm oil usage was updated during the year, resulting in adjusted 2015 results (figure previously reported 10%). The new externally audited calculations increase accuracy of volumes used and the exact timings of usage. Volumes for full-year 2015 were covered by RSPO-approved supply chains.



Global GROWTH DRIVERS

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



PRODUCT CULTURE & HERO SETS

Through its focus on Skin Care and Wellness sets and routines, Oriflame can add value to the customer beyond offering the lowest price. The daily routines have clinically proven benefits and the Consultant can help to identify the products that meet the customer's individual needs. Having a strong product culture supports the earnings proposition for Consultants and enables easier and faster growth in the success plan. Furthermore, it clarifies what the Consultants should focus on when recommending Oriflame to others and also builds uniqueness in the marketplace and pride among employees and Consultants.



SARPIO

SARPIO (Sales and Recruitment Process in Oriflame) is a unique differentiator for Oriflame, providing a comprehensive methodology for how to drive systematic recruitment and leadership development. SARPIO supports leaders with professional training modules, which give new Consultants a proper start and drive leadership development and target-setting. The principles and methods are taught in the Oriflame Academy and available to all Consultants.



THE SUCCESS PLAN

The success plan is a fundamental driver of growth since it is Oriflame's ultimate tool for rewarding the Consultants. The rewards are monetary as well as linked to a system of titles to recognize the growing role a Consultant can achieve. With an increased number of companies offering additional income opportunities, it is important that Oriflame provides a competitive earnings proposition. Oriflame aims to be an attractive option for those who want to start selling and making money from day one, while also offering the opportunity to build a business by inviting others and leading a team.



CONFERENCES

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



DIGITAL

The basis for Oriflame has always been social selling. As part of the global digital transformation, Oriflame's business model is evolving and is today, to a large extent, an online model with over 90% of all orders being placed online and a rapidly increasing share of access through mobile internet. Oriflame believes that the global online trend creates opportunities to expand the target group, reach more potential Consultants and become an attractive alternative for the growing segment of online beauty shoppers. A further digitalisation of the Oriflame business model will stimulate personal recommendation of the Oriflame brand, products and opportunity in social media, an approach Oriflame believes is more credible and trustworthy compared to mass marketing and traditional media campaigns. Oriflame is also pursuing analytical segmentation and marketing automation to better understand the behaviour of the Consultants and thus be able to communicate in a more relevant way.



CUSTOMER EXPERIENCE

Oriflame believes that its advantages lie in its relationships with its Consultants and that every interaction is an opportunity to create a positive experience and an emotional connection. That is why Oriflame's employees are dedicated to delivering consistent, personalised and positive experiences through all touch points. The company is committed to making the improvements necessary to offer the best service possible to strengthen its Consultant relationships. This includes optimising service and inventory through enhanced processes and systems, reducing lead times and optimising the logistics platform. With approximately 50% of the volumes being produced internally, Oriflame partners with external suppliers that share the same commitment and values to ensure end-to-end supply chain optimisation.



BRAND & CULTURE

Oriflame understands that it is the total brand experience that will make the company unique, not the product offering or the business opportunity in isolation. At Oriflame, people are the biggest asset. The Oriflame employees are the most important enablers for ensuring delivery on the strategy and the promise to the Consultants. With a clear direction of where the company is going, accompanied with clearly defined responsibilities and goals connected to the business strategy, relevant development activities and attractive career options, the employees of Oriflame will be engaged, capable and empowered. Engaged and high-performing employees will lead to engaged and high-performing Consultants.

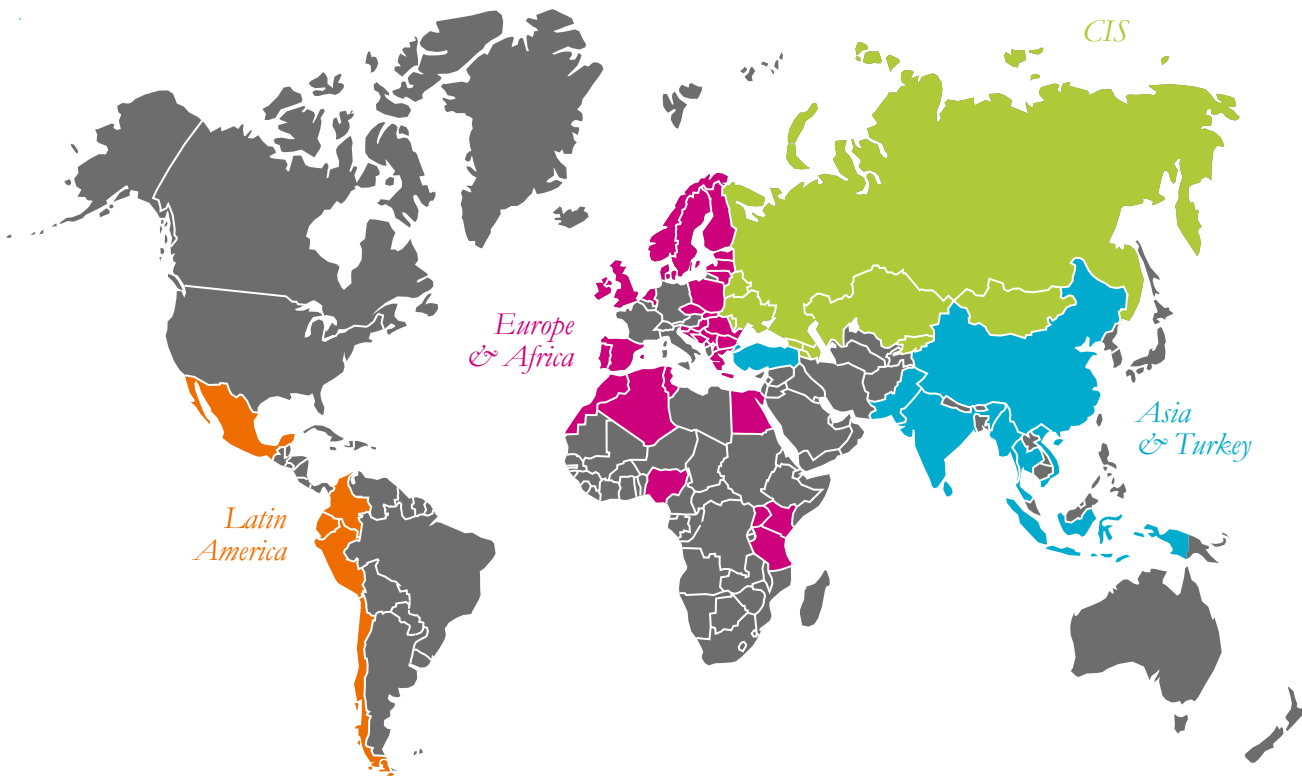




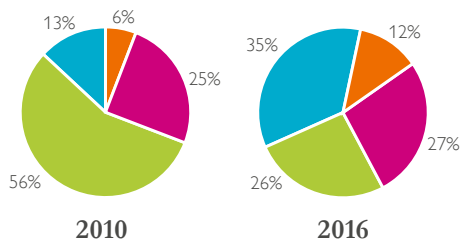
2016 *markets*

The rapid shift in Oriflame's geographic footprint continued during the year and the company leaves 2016 with a geographic mix that is well balanced and enables long-term profitable growth. During the year, Oriflame grew double-digit in Asia & Turkey and Latin America – which now account for almost half of the Group's sales and an even larger share of the operating profit.

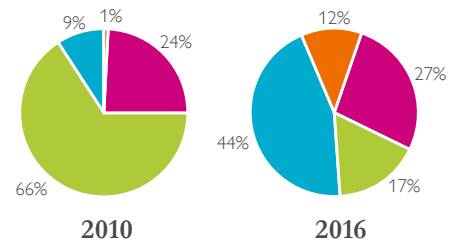
RAPID SHIFT IN *geographic footprint*



SALES:

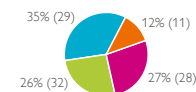
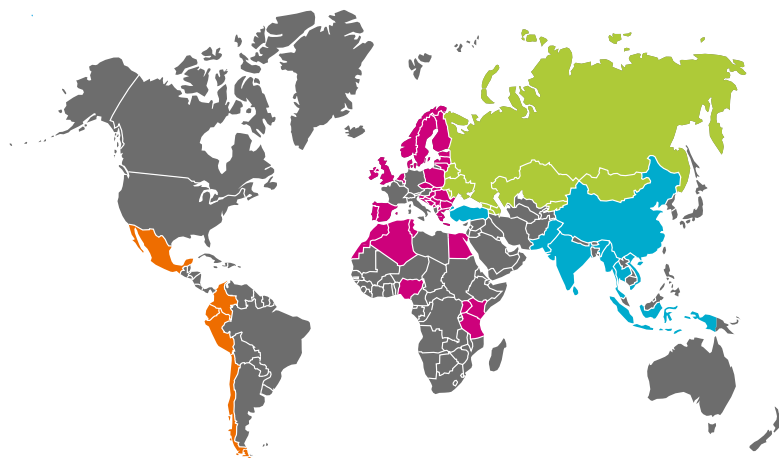


OPERATING
PROFIT:

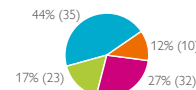


STRATEGIC MARKETS:

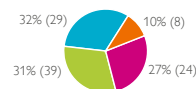
Mexico
Russia
Turkey
India
China
Indonesia



Sales



Operating profit



Registered actives

Group

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

Six of these have been identified as strategic markets, where the company will focus its resources and investments in order to grow its global business going forward.

2016 development in brief

- Local currency sales increased by 12%, Euro sales increased by 3%
- Registered Actives decreased by 7% to 3.0 million Oriflame Consultants
- Operating margin was 9.5% (7.5%, adj. 8.3%)

Despite challenging market and macro conditions, Oriflame returned to Euro growth, delivered double-digit local currency growth and increased profitability during 2016. The strong performance continued in the growth regions of Asia & Turkey and Latin America, and a stabilization could be seen in Europe & Africa. The focus in CIS remained on returning to sustainable growth, and improved profitability and progress was made on realising the implemented price increases.

OPERATIONS

Production

Six production facilities in four countries.

Group Distribution Centres

Four Group Distribution Centres in four countries.

Offices

Corporate Office in Schaffhausen (Switzerland).

Group Support Offices in Dublin (Ireland), Luxembourg (Luxembourg), Stockholm (Sweden), Stuttgart (Germany) and Warsaw (Poland).

Global IT Centre of Excellence in Olomouc (Czech Republic).

GS Finance Centre of Excellence in Warsaw (Poland).

1. Mexico

Sales 2016 (€m): 81.2

% of business area sales: 55%

% of Group sales: 7%

2. Colombia

3. Peru



Sales



Operating profit



Registered actives

Latin America

Chile, Colombia, Ecuador, Mexico, Peru

2016 development in brief

- Local currency sales increased by 22%, Euro sales increased by 9%
- Registered Actives increased by 10% to 0.3 million Oriflame Consultants
- Operating margin was 14.6% (11.7%)

Healthy growth was seen in most markets, with continued strong performance in Mexico and Peru. The performance in the region was driven by strong leadership development and successful incentive programmes.

OPERATIONS

Offices

Regional office in Mexico City (Mexico).

Catalogue creation and printing

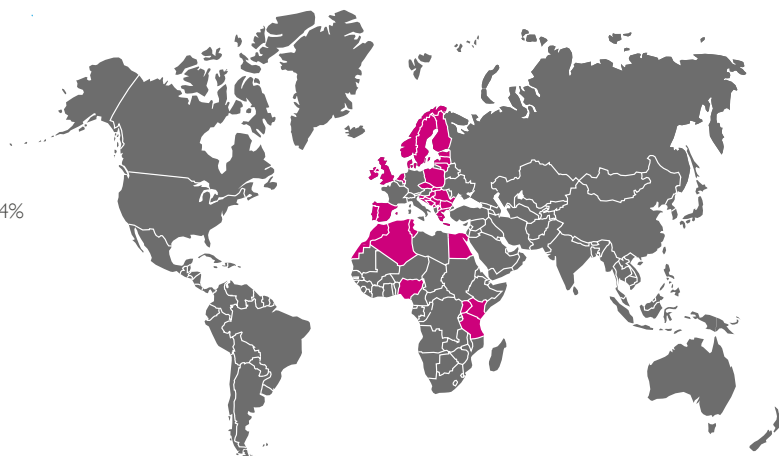
Created in the regional office in Mexico City. Printed in Mexico, Chile and Ecuador for all Latin American markets.

1. Poland

Sales 2016 (€m): 47.6
 % of business area sales: 14%
 % of Group sales: 4%

2. Romania

3. Morocco



Sales



Operating profit



Registered actives

Europe & Africa

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

2016 development in brief

- Local currency sales increased by 4%, Euro sales were stable
- Registered Actives increased by 5% to 0.8 million Oriflame Consultants
- Operating margin was 15.2% (15.1%)

The sales development in Europe stabilised during the year, with the strongest performance noted in the main markets. The performance in Africa improved during the second half of the year, although macroeconomic and exchange-rate challenges remain.

OPERATIONS

Production

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

Group Distribution Centres

WARSAW (POLAND) – Serving eleven markets.

BUDAPEST (HUNGARY) – Serving twelve markets.

Offices

Regional office in Warsaw (Poland).

Catalogue creation and printing

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

1. Russia

Sales 2016 (€m): 210.7
% of business area sales: 65%
% of Group sales: 17%

2. Ukraine

3. Kazakhstan



Sales



Operating profit



Registered actives

CIS

Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Mongolia, Russia, Ukraine

2016 development in brief

- Local currency sales decreased by 2%, Euro sales decreased by 16%
- Registered Actives decreased by 28% to 0.9 million Oriflame Consultants
- Sales in the region's largest market, Russia, decreased by 10% in local currency
- Adjusted operating margin was 9.8% (9.2%)

The focus in CIS was on returning to sustainable growth and improved profitability. The online activity and leadership development were on high levels during the year and progress was made on realising the implemented price increases.

OPERATIONS

Production

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

Group Distribution Centres

KIEV (UKRAINE) – Serving the Ukrainian market.
NOGINSK (RUSSIA) – Serving primarily the Russian market.

Offices

Regional office in Moscow (Russia).

Catalogue creation and printing

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

1. China

Sales 2016 (€m): 139.1
 % of business area sales: 32%
 % of Group sales: 11%

2. Indonesia

3. India



Sales



Operating profit



Registered actives

Asia & Turkey

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

2016 development in brief

- Local currency sales increased by 30%, Euro sales increased by 25%
- Registered Actives increased by 6% to 1.0 million Oriflame Consultants
- Operating margin was 19.1% (15.5%)

Most markets performed well during the year, with solid growth in China, Indonesia, Turkey and Vietnam, while the development in India was weaker. The performance in the region was primarily driven by a combination of solid leadership, online activity and a clear focus on Skin Care and Wellness sets and routines.

OPERATIONS

Production

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

Offices

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

Catalogue creation and printing

The regional catalogues are created and printed locally. Catalogue Development Center (CDC) in Bangkok, Shanghai, Jakarta, New Delhi and Istanbul.

Key Figures

THREE-YEAR RECORD

€ million unless stated otherwise	2016	2015 ¹⁾	2014 ²⁾
Sales	1 249.4	1,211.6	1,265.8
Gross profit	882.9	838.3	866.4
Gross margin, %	70.7	69.2	68.4
EBITDA	148.2	117.4	122.9
Operating profit	119.2	90.6	94.7
Operating margin, %	9.5	7.5	7.5
Adjusted operating profit	119.2	100.2	97.8
Adjusted operating margin, %	9.5	8.3	7.7
Net profit	66.7	34.2	37.5
Adjusted net profit	66.7	43.2 ³⁾	47.0 ⁴⁾
Return on capital employed, ROCE, %	26.7	20.7	19.9
Return on operating capital, %	38.0	25.4	21.8
Cash flow from operating activities	113.1	122.2	90.0
Cash flow from operating activities, per share, €	2.03	2.19	1.62
Equity/assets ratio, %	28.4	21.2	20.2
Net interest-bearing debt	82.3	171.6	245.4
Net debt at hedged values/EBITDA	0.1	0.8	1.6
Interest cover	6.6	4.8	5.4
Adjusted earnings per share, diluted, €	1.18	0.79 ³⁾	0.84 ⁴⁾
Registered actives ('000)	3,006	3,246	3,473
Sales per active consultants, €	411.9	370.3	362.4
Average number of full-time equivalent employees	6,233	6,535	7,039

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

2) Adjusted for non-recurring items of €3.1m.

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

4) Adjusted for additional non-recurring tax items of €6.4m.

DEFINITIONS

OPERATING CAPITAL

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

RETURN ON OPERATING CAPITAL

Operating profit divided by average operating capital.

CAPITAL EMPLOYED

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

RETURN ON CAPITAL EMPLOYED

Operating profit plus interest income divided by average capital employed.

NET INTEREST-BEARING DEBT

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

INTEREST COVER

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

NET INTEREST-BEARING DEBT TO EBITDA

Net interest-bearing debt divided by EBITDA.

EBITDA

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

QUARTERLY FIGURES

	2015				2016			
Sales, € million	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Latin America	30.4	35.7	35.3	35.6	29.4	38.5	40.9	39.8
Europe & Africa	81.7	79.0	71.3	97.0	82.4	81.2	70.4	95.3
CIS	108.4	97.4	77.2	104.0	86.6	78.0	67.2	93.9
Asia & Turkey	84.2	87.1	77.2	100.4	103.9	109.5	97.5	123.3
Manufacturing	1.5	0.3	0.6	0.7	2.1	0.4	0.7	0.6
Other	1.6	1.5	1.6	1.8	1.4	2.0	2.2	2.2
Oriflame	307.8	301.0	263.2	339.5	305.8	309.6	278.9	355.1
Adjusted operating profit, € million	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Latin America	1.8	4.1	5.0	5.1	2.6	6.1	7.2	5.8
Europe & Africa	11.7	11.7	11.0	15.2	11.8	12.4	8.9	16.8
CIS	12.6	6.9	7.1	8.9	7.2	5.2	5.5	14.0
Asia & Turkey	8.5	15.1	10.7	19.8	14.7	23.1	17.7	27.6
Manufacturing	0.7	0.4	2.7	2.3	3.3	1.6	2.5	1.6
Other	(18.1)	(13.3)	(17.4)	(12.4)	(18.5)	(17.6)	(16.6)	(23.8)
Oriflame	17.2	25.0¹⁾	19.1	38.9²⁾	21.1	30.8	25.2	42.0
Registered actives, '000	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Latin America	227	228	268	263	243	286	314	288
Europe & Africa	797	735	663	774	768	740	655	812
CIS	1,531	1,243	1,075	1,281	1,133	913	784	926
Asia & Turkey	874	817	790	928	961	923	895	980
Oriflame	3,429	3,023	2,796	3,246	3,105	2,862	2,648	3,006

1) Adjusted for non-recurring items of €3.2m.

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

The Oriflame Share

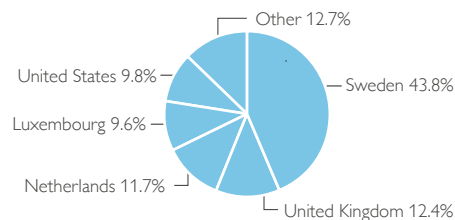
On 23 June 2015, Oriflame Holding AG was listed on the Nasdaq Stockholm Exchange, following a share-for-share exchange offer to all SDR and shareholders of the previous top holding company Oriflame Cosmetics SA. Oriflame Cosmetics SA, was introduced on the Nasdaq Stockholm Exchange on 24 March 2004 through an initial public offering of Swedish Depositary Receipts (SDRs). On 31 December 2016, the number of shareholders was 8,975. The last price paid on 30 December 2016 was SEK 275.10, giving Oriflame a total market capitalisation of SEK 15.3 billion. During 2016, an average of 214,188 shares were traded per day on the Nasdaq Stockholm Exchange.

ORIFLAME COSMETICS TOP 10 SHAREHOLDERS AS AT 31 DECEMBER 2016

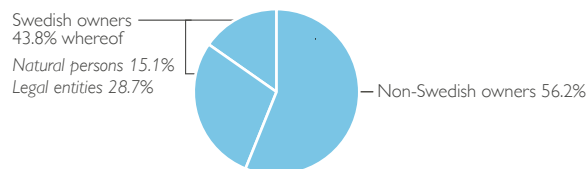
	Shares	Share capital and voting rights, %
1 Af Jochnick BV	6,327,001	11.4
2 Robert and Alexander af Jochnick and Family	5,433,283	9.8
3 Fourth Swedish National Pension Fund (AP4)	4,820,483	8.6
4 Jonas af Jochnick and Family	4,362,898	7.8
5 M&G Investment Management Ltd.	2,041,016	3.7
6 Första AP-fonden (AP1)	2,032,369	3.7
7 Acadian Asset Management LLC	2,030,321	3.6
8 Investment AB Öresund	1,900,000	3.4
9 JPMorgan Asset Management (UK) Ltd.	1,638,037	2.9
10 Handelsbanken Fonder AB	1,605,242	2.9
Treasury shares owned by the company	13,160	0.0
Others	23,550,155	42.2
Total shares issued	55,753,965	100.0

Source: Cmi2i

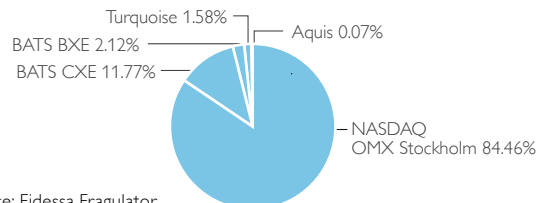
Geographic distribution of shareholders 2016



Distribution of shareholder-type 2016



Place of share trading 2016



Source: Fidessa Fragulator

HISTORY OF SHARE CAPITAL

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

Year	Transaction	Change in numbers of shares	Change in share capital EUR '000	Total number of issued shares	Total share capital EUR '000
2014	Initial emission	100,000	124	100,000	124
2015-06-19	New issue	48,391,447	69,468	48,491,447	69,592
2015-07-08	New issue	4,516,596	6,475	53,008,043	76,067
2015-08-14	New issue	1,288,931	1,782	54,296,974	77,850
2015-09-11	New issue	149,049	205	54,446,023	78,054
2015-09-30	New issue	1,262,540	1,734	55,708,563	79,788
2016-06-30	New issue	45,402	62	55,753,965	79,850

OWNERSHIP STRUCTURE AS AT 31 DECEMBER 2016 (EXCLUDING TREASURY SHARES)

Shareholding		Number of shareholders	%	Number of shares	%
1 – 1,000		8,103	90.3	1,099,049	2.0
1,001 – 10,000		571	6.4	1,836,794	3.3
10,001 – 50,000		167	1.9	3,961,101	7.1
50,001 – 500,000		116	1.3	17,596,264	31.6
500,001 – 1,000,000		8	0.1	5,389,849	9.7
1,000,001 –		10	0.1	25,857,748	46.4
Total		8,975	100.0	55,740,805	100.0

Source: Euroclear and share register

DIVIDEND POLICY AND DIVIDEND PROPOSAL

The Board of Directors has adopted a dividend policy to the effect that, absent changes in the company's operations or capital structure, Oriflame intends to distribute, over the long term, at least 50 percent of the company's annual profit after tax as dividends. In May 2014, the Annual General Meeting (AGM) decided that payments will be made on a quarterly basis and that the Board will be given a mandate to decide the timing and size of the quarterly payments.

The Board of Directors will propose to the 2017 AGM a total dividend of €1.50 per share for 2016, given the company's strong financial position and with the Net debt/EBITDA below the target range of 0.5 to 1.5, of which €1.00 (€0.40) per share is to be considered an ordinary dividend and €0.50 to be considered an extra dividend. The ordinary dividend is to be paid in equal quarterly instalments of €0.25 starting in the second quarter of 2017, and the extra dividend is to be paid during the second quarter of 2017. The dividend instalments will be distributed from the company's Capital Contribution Reserve and are thereby not subject to any Swiss withholding tax.

SHARE TRADE

A total number of 43.6 million shares were traded on Nasdaq Stockholm during 2016, accounting for 84.46 percent of total turnover in the share. Oriflame's share is also traded in marketplaces outside of Nasdaq Stockholm such as Bats, Turquoise and Aquis.

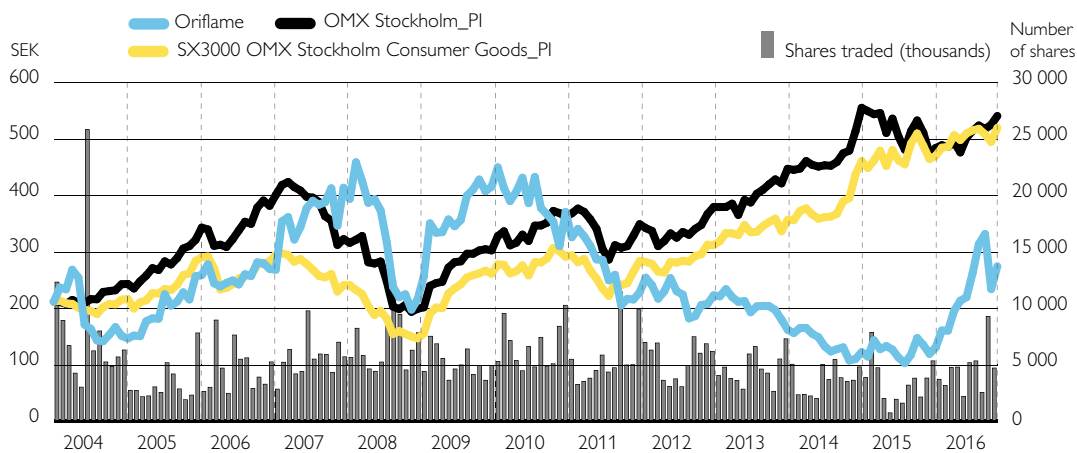
SHARE DATA

Listing	Nasdaq Stockholm
No of shares issued	55,753,965
Earnings per share	1.18
Dividend per share	EUR 0.40
Market capitalisation at 30 December 2016	SEK 15.3 billion
Ticker code	ORI
ISIN-code	CHO256424794

ANALYSTS FOLLOWING ORIFLAME

Andreas Lundberg	ABG Securities
Niklas Ekman	Carnegie
Gustav Sandström	Danske Bank
Ole-Andreas Krohn	DNB Markets
Nicklas Skogman	Handelsbanken
Stellan Hellström	Nordea
Alexandra Barganowski	SEB
Stefan Olsson	Swedbank

SHARE PRICE



Source: Six

Corporate Governance Report

INTRODUCTION

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

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

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

COMPLY OR EXPLAIN

OHAG deviates from the Code concerning the appointment of the nomination committee and its tasks: According to Swiss company law the nomination of the members of the board of directors, its chairman, the external auditor as well as appointment of the chair of the general meeting are inalienable tasks of the board of directors. The nominations to the board of directors, chairman of the board and auditor are to be presented by the board of directors to the annual general meeting for approval. The board of directors' proposals to the annual general meeting can be prepared by a committee, provided that such committee only consists of members of the board of directors. In keeping with Swiss company law OHAG has therefore formed a nomination & governance committee consisting solely of OHAG directors. This is a deviation from the Code,

which stipulates that the shareholders are to appoint (or specify how to appoint) the nomination committee members and that members of the board of directors can be part of the nomination committee but may not constitute a majority thereof. During 2016 OHAG also deviated from the Code by having the nomination committee consist of only two members (whereas the Code states that the nomination committee shall have no fewer than three members). However, in order to ensure relevant input from shareholders, OHAG's nomination committee consults with, inter alia, OHAG's five largest shareholders before presenting their proposal to the board. The nomination committee does furthermore not make any recommendation on auditor's remuneration as, under Swiss law, the remuneration of the auditors is not a shareholders' decision. Nor does the nomination committee of OHAG prepare any recommendations on board and committee remuneration as, in accordance with Swiss law, such recommendations are to be put forward to the annual general meeting by the board of directors, and can only be prepared by the remuneration committee.

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

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

OHAG also deviates from the Code concerning the shareholders' influence on share and share-price related incentive schemes for the exec-

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

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

GENERAL MEETINGS

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

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

The right to participate at general meetings shall accrue to any shareholder who is entered in the share register kept by Euroclear Sweden or

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

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

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

- to determine and amend the articles of association;
- to elect individually the members of the board of directors and the external auditor;
- to approve the management report and the consolidated accounts;
- to approve the annual accounts and resolutions on the allocation of the disposable profit;

- to discharge the members of the board of directors;
- to pass resolutions concerning the matters reserved for general meetings by law or the articles of association.

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

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

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

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

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

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

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

BOARD OF DIRECTORS

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

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

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

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

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

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

nine directors. The Board consists of principal shareholders and persons independent of such shareholders. The CEO is a member of the Board.

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

Meetings of the board of directors shall be held as often as required. According to the Organisational Regulations, the Board shall convene at least four times per year, of which at least one meeting is to focus on business strategy issues. During 2016, OHAG executed 3 circular resolutions and held seven board meetings, one of which was a two-day strategy meeting. The secretary at board meetings is in-house counsel Pontus Andreasson.

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

The board meetings usually begin with a discussion of the business and financial performance of the Group. The various financial reports and the annual report are reviewed and approved before being published. Other topics discussed at board meetings include general strategies, overall business reviews, long and short-term targets, human resources, investments, capital distribution, compliance and remuneration. At the end of each year, the CEO and the CFO present the target and budget proposition for the following year to the Board, which then reviews and discusses the proposal during one or several board meetings. Following discussions and possible adjustments, the Board approves the target/budget for the upcoming year.

2016 Board and committee attendance

Board member	Board meetings	Remuneration committee meetings	Audit committee meetings	Nomination committee meetings
Alexander af Jochnick (Chairman)	7	4	4	3
Lilian Fossum Biner*	1	1	2	—
Magnus Brännström	7	—	—	—
Anders Dahlvig	7	—	—	3
Jonas af Jochnick	6	—	—	—
Robert af Jochnick	6	—	—	—
Anna Malmhake	7	—	—	—
Helle Kruse Nielsen*	1	—	2	—
Christian Salamon	7	—	5	—
Karen Tobiasen**	6	3	1	—
Mona Abbasi**	6	—	—	—
Total number of meetings	7	4	5	3

* Board member until 17 May 2016

** Board member from 17 May 2016.

The directors participate in all discussions. Directors may, however, not vote or deliberate on any motion in which they have a conflict of interest. A director is not counted in the quorum of a meeting if a conflict of interest disallows him/her from voting on a particular motion. Directors shall declare the nature of any conflict of interest prior to deliberating and voting on the issue, and such declaration is entered in the minutes of the meeting. The CFO is generally invited to all board meetings, and always to the board meetings convened to approve quarterly results. Other members of the Oriflame management are from time to time invited to board meetings in order to present issues related to their specific areas of responsibility. Auditing and internal control issues are carefully considered by the audit committee and then reported to the Board.

The auditors are invited to all regular audit committee meetings. At least once per year, the Board meets with the auditors without the CEO or other members of senior management being present. In advance of the 2016 year-end report, such a meeting took place on 15 February 2017.

Remuneration of the directors is determined by a resolution adopted by the annual general meeting. The 2016 annual general meeting

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

Independence according to the Code: Directors Mona Abbasi, Anders Dahlvig, Anna Malmhake, Christian Salamon and Karen Tobiasen are deemed independent of Oriflame, its management and its major shareholders. Magnus Brännström is not independent of the company, being the company's CEO. Robert, Jonas and Alexander af Jochnick are not independent of the company nor of its major shareholders: Robert and Jonas af Jochnick are co-founders of the company and, together with other members of the af Jochnick family, constitute the largest shareholder of the company. They have been directors since 1970.

For more information about the directors, please see the section Board of Directors on pages 104–105 of the annual report.

NOMINATION COMMITTEE AND NOMINATION PROCESS

Following the annual general meeting on 17 May 2016, the board established a nomination & governance committee from among its members. The purpose and aim of the nomination & governance committee is to ensure the quality of the board, its committees and the company's governance structure and to nominate candidates for the board, the chairman of the board, the members of board committees, the independent proxy as well as the external auditor of the company. The aim of the nomination & governance committee is that elected directors will represent knowledge and competence relevant to Oriflame's operations.

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

The members of the nomination & governance committee are appointed by the board of directors each year following the annual general meeting. The nomination committee meets at least biannually. The members of the nomination & governance committee formed in 2016 consist of Alexander af Jochnick and Anders Dahlvig. Anders Dahlvig is chairman of the nomination & governance committee.

In order to reflect best corporate governance practice among companies listed on the Nasdaq Stockholm Exchange, the nomination & governance committee Charter stipulates that the nomination committee shall consult with, inter alia, the largest shareholders of the company. Such consultation took place in advance of the 2017 annual general meeting, when the nomination committee invited the five largest shareholders of the company to a nomination & governance committee meeting to consult and agree on their further involvement in the nomination process. The following shareholder representatives have been involved and given their input to the nomination committee in advance of the 2017 annual general meeting: Per Hesselmark (Af Jochnick BV), Per Colleen (Fourth Swedish National Pension Fund) and Øystein Engebretsen (Investment AB Öresund). In addition, the af Jochnick family has been represented at the nomination committee meetings through Alexander af Jochnick.

In advance of the 2017 annual general meeting, the nomination & governance committee formed in 2016 has met three times, twice during 2016 and once during 2017. All meetings were attended by all committee members.

In advance of the 2017 annual general meeting, the work of the nomination & governance committee comprised the following:

As a basis for its work, the nomination & governance committee commissioned an external consultant to carry out an evaluation of the board and its committees. The evaluation included interviews with each of the board members. The evaluation concluded that the Board is very well-functioning, also in comparison with other listed companies, and that there is clarity between the roles of the owners, the Board and management. The evaluation also concluded that the Board is composed of individuals with relevant and complementary expertise and that all directors demonstrated a high level of commitment. Independent directors are included in full compliance with requirements that apply for publicly listed companies in Sweden.

The nomination committee has thereafter formulated its proposals for presentation to the board in advance of the annual general meeting to be held on 9 May 2017. The proposals relate to the:

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

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

REMUNERATION COMMITTEE

As per mandatory Swiss law, Swiss companies whose equity securities are listed must have a remuneration committee. As per article 17 of the articles of association of the company, the remuneration committee consists of at least two members of the board of directors. Each member of the remuneration committee is elected individually by a general meeting for a term of office until the close of the next annual general meeting. The remuneration committee constitutes itself and elects a chair from among its members. It appoints its secretary who needs not be a director of the board or a member of the remuneration committee. The members of the remuneration committee elected by the annual general meeting held on 17 May 2016 for the time until the annual general meeting 2017 are Alexander af Jochnick (committee chair) and Karen Tobiasen. In-house counsel Pontus Andreasson has been secretary of the remuneration committee.

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

The remuneration committee supports the board of directors in establishing and reviewing the company's remuneration strategy and guidelines and performance criteria as well as in preparing the proposals to the general meeting regarding the remuneration of the board of directors and executive management. It may submit proposals and recommendations to the board of directors in other remuneration-related issues. The board of directors has established a charter, which defines purpose, composition and procedural rules for the remuneration committee, including its responsibilities and authorities for making proposals and decisions related to remuneration of the members of the board of directors and executive management in line with legal and regulatory requirements, the articles of association and the respective remuneration framework approved by the board of directors from time to time. The board of directors may delegate further responsibilities and authorities to the remuneration committee.

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

Based on its reviews, the remuneration committee prepares proposals for resolutions, to be discussed and approved by the Board. The remuneration committee meets when necessary but at least twice per year. During 2016, the remuneration committee 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 Oriflame's accounting, financial reporting and internal control as well as financial risk exposure and risk management. It also reviews the work of the auditors. Based on these reviews, the audit committee prepares proposals for resolutions, subject to final approval by the Board. The audit committee meets at least biannually. In 2016, the audit committee met five times. The members of the audit committee during 2016 comprised Lilian Fossum Biner (until 17 May 2016), Alexander af Jochnick, Helle Kruse Nielsen (until 17 May 2016), Christian Salamon (committee chair), and Karen Tobiassen (from 17 May 2016). The CFO and the Vice President Group Risk and Compliance report to the audit committee and, together with the company's auditors, are invited to all regular meetings.

AUDITOR

The annual general meeting held on 17 May 2016 resolved to re-elect KPMG AG as independent auditor in respect of the statutory accounts and consolidated financial statements until the close of business of the next annual general meeting. KPMG AG, Zurich is the Swiss member firm of KPMG International. It is the second year that KPMG AG, Zurich has been engaged as Oriflame's independent auditor. The audit team is headed by H  l  ne B  guin. Apart from her engagement with Oriflame, H  l  ne B  guin holds no assignments for any persons affiliated with Oriflame or for any of Oriflame's major shareholders. In connection with the year-end audit, H  l  ne B  guin met with the board on 15 February 2017 in order to present the audit findings. The KPMG audit team attended all regular audit committee meetings throughout the year. For fee details on non-audit services provided by KPMG, please see Note 6 of the Annual Report.

EXECUTIVE MANAGEMENT AND ORGANISATION

CEO and Corporate Committee

The CEO is appointed by the Board and is responsible for the day-to-day control of the Group. Oriflame's Chief Executive Officer Magnus Brännström was born in Sweden in 1966. He is a graduate of Uppsala University, Sweden, and joined Oriflame as Managing Director of Russia in 1997. He then became Regional Director for CIS, Baltics and Asia. He has been CEO since 2005.

The Corporate Committee is the company's executive management and is responsible for implementing the Group strategy, business control and the allocation of resources between the regions. The Corporate

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

Group Management

In addition to Corporate Committee members, Group Management has during 2016 consisted of the following Vice Presidents:

- Michael Cervell, Senior Vice President, Global Direct Sales
- Thomas Ekberg, Senior Vice President and Head of Global Business Area Asia & Turkey
- Emma Hågemo, Vice President Group Strategy
- Stefan Karlsson, Senior Vice President & Head of Global Human Resources
- Johan Rosenberg, Senior Vice President & Head of Global Business Areas CIS and Latin America
- Antonia Simon-Stenberg, Vice President Sustainability and Quality Management

MANAGEMENT BUSINESS REVIEW

The Oriflame Corporate Committee has a full end-to-end review once a month to ensure compliance with the business strategy and the desired position. The process is led by an appointed business review leader, and executives and senior managers in the business are invited to review certain areas. The Management Business Review covers all core business processes within Oriflame, such as New Product Development, Demand & Catalogue and Supply Chain. The process is illustrated in the model presented on this page.

REGIONAL MANAGEMENT

Oriflame distributes its products through a network of approximately 3 million independent Oriflame Consultants in more than 60 countries. Group segmentation is based on cosmetics sales by geographic business area, with the business areas being Latin America, Europe & Africa, CIS

and Asia & Turkey. Each business areas has its own staff and resources to facilitate effective control and is headed by a Head of Business Area. Each Head of Business Area reports to the CEO.

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

Oriflame has a local presence in each region in the form of wholly owned sales companies in a total of 55 markets. In 11 markets, Oriflame acts through franchise arrangements with local distributors rather than through subsidiaries. Some sales companies operate with their own warehouse facilities, others are supplied by regional distribution hubs.

GLOBAL SUPPORT AND SERVICE

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



Report on Internal Control, Risks and Monitoring

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

Back in 2010, the company selected the COSO framework as a basis for its internal control system. The COSO framework was issued by the Committee of Sponsoring Organisations of the Treadway Commission. The framework consists of five components:

- Control environment,
- Risk assessment,
- Internal controls,
- Information and communication,
- Monitoring.

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

CONTROL ENVIRONMENT

The Board of Directors has the overall responsibility to ensure that the company's system for management and internal control is effective. The company's internal control system includes policies for measurement, acquisition and protection of assets, controlling the accuracy and reliability of reports, and ensuring compliance with defined guidelines. The policies and guidelines are the foundation for the internal control system. The Board has also ensured that the organisational structure is logical and transparent, with clear roles, responsibilities and processes that facilitate the effective management of operational risks and enable the company to fulfil its goals. This process includes the evaluation by the Board of the business performance and results through reports that contain results, forecasts and targets. Also, the Board reviews the interim and annual reports before they are presented externally.

The Audit Committee (composed of board members) monitors the effectiveness of internal controls, considers critical questions regarding accounting and regulatory compliance. The company's auditor is invited to participate in the regular meetings of the Audit Committee. The Group Risk and Compliance Director is also a regular invitee to the Audit Committee meetings, as head of internal control, in order to present the latest developments on internal controls, related policies, procedures and to formally request approval of the Audit Committee, where relevant. For each business area and corporate function, the Chief Financial Officer has appointed a Vice President Finance, who is responsible for the implementation and documentation of internal controls, as well as for reporting in accordance with company guidelines, and ensuring compliance with local laws and regulations. Each Vice-President Finance may be supported in this task by one or several Regional Finance Directors. The Group Risk and Compliance Director is responsible for the design of internal controls. The head of finance in each Oriflame entity is in charge of the implementation and of the documentation of internal controls. Regional controllers, are in charge of verifying internal controls implemented locally. They specifically consider the implementation of the controls as well as their effectiveness, by reviewing the quality of the documentation. They subsequently report the results of their verifications to the Vice-Presidents Finance and Regional Finance Directors, who are then responsible for supervising and monitoring the execution of the recommended improvements and changes within their area of responsibility. Since 2011, the company has deployed an internal control software platform, which enables real-time monitoring of the existence of internal controls, as well as the preservation of historical data. Since 2013, in order to further strengthen the attention to risk and compliance matters within the organisation, Oriflame has appointed a Vice President Group Finance, Risk and Compliance.

RISK ASSESSMENT

As for controls related to the financial area, the major risk areas for material misstatements in the financial reporting were already in 2009 defined as follows: inventory, cash and banks, credit process, sales, performance discount and bonuses, and information technology system. These financial

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

INTERNAL CONTROLS

A control process description follows the logical structure of the business and reporting flow, with a clear definition of steps and related controls. It also assigns control responsibilities to different positions involved in the process and states the reasons for the control. The key controls encompass the controls that are most critical to the integrity of financial statements. Non-key controls are also in place for risks that may not affect the financial statements, but are critical to mitigate operational risks. The Vice Presidents Finance monitor the operations by performing analytical controls such as follow-up on forecasts and budgets, analysis of results and balance sheet items, business reviews and commentaries on markets' and functions' (supply, marketing) performance. The result of this work is periodically reported to management and group functions concerned. The functional departments regularly monitor their respective areas of responsibility in order to identify potential risks and errors.

COMPLIANCE REPORTING MECHANISM – CODE OF CONDUCT

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

INFORMATION AND COMMUNICATION

The company maintains information and communication channels intended to ensure the effective provision of accurate information regarding financial information. Policies and guidelines on financial reporting are revised and updated continuously and are made available internally on the company's intranet, as well as via memorandums and internal meetings. There are also formal and informal information channels that enable employees to communicate important information to relevant recipients. A policy for communication and information with external parties is in place on the company's intranet to ensure that accurate and appropriate information is provided to external parties. The control process descriptions, internal controls and documentation are available to the relevant employees through the Internal Control software platform.

MONITORING

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

PRINCIPAL RISKS AND UNCERTAINTIES

Strategic and operational risks

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

In the short term, the loss of key high-level Oriflame Consultants could adversely impact the growth and the performance of the distribution network and thus, sales.

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

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

Oriflame is dependent on its information systems in Czech Republic and Russia and on Europe-based cloud computing architecture, supported and monitored in India. More than 90 per cent of orders are placed online, and any interruption in these facilities due to natural disasters or durable software malfunction could negatively impact the company's operations.

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

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

Financial risks

Given the international nature of Oriflame's business, the Oriflame Group is exposed to double-taxation. The tax and transfer pricing strategies utilized in Oriflame are based on best practice interpretations of current tax laws, treaties and regulations of the various countries involved and the requirements of the relevant tax authorities. In the event that Oriflame's interpretation of these laws, treaties and regulations or their applicability is incorrect, if one or more governmental authorities successfully assert conflicting claims over the ability to tax profits in the respective subsidiary or the Oriflame Group or if the applicable laws, treaties, regulations or governmental interpretations thereof or administrative practice in relation thereto change, Oriflame's effective tax rate could increase and could adversely affect the results. In the event tax authorities were successfully in challenge the Oriflame Group's past or current tax positions, this could result in an increased effective tax rate.

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

For a further detailed analysis of financial risks, please see note 26 of the financial statements. In terms of going concern, the Group's own cash flow should together with existing facilities secure the company's financing needs for the foreseeable future.

Other risks

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

The imposition of legal, tax or financial burden on Oriflame Consultants could affect negatively the company's operations and ability to recruit new Consultants in concerned markets.

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

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

Compensation Report

1. INTRODUCTION

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

This Compensation Report will be submitted to the annual general meeting (AGM) of the company to be held on 9 May 2017 for a consultative vote.

2. GOVERNANCE

2.1 Overview

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

2.2 Remuneration Committee

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

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

The Remuneration Committee formed following the 2016 AGM and in place until the 2017 AGM consists of Karen Tobiasen and Alexander af Jochnick (Committee Chairman and Chairman of the board).

The purpose and aim of the Remuneration Committee is to ensure that Oriflame has access to the competence required at an appropriate cost, and that the existing and future remuneration schemes have the intended effects for Oriflame's operations.

The tasks of the Remuneration Committee are to:

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

For information about the work of the Remuneration Committee during 2016, please see page 50-51 in the Corporate Governance Report.

3. REMUNERATION OF EXECUTIVE MANAGEMENT

3.1 General principles of remuneration

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

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

3.2 Executive remuneration overview

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

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

i. Fixed Base Salary

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

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

ii. Profit Sharing

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

ORIFLAME COMPENSATION

Number of participants per 31 December 2016



iii. Share Incentive and Retention Plan:

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

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

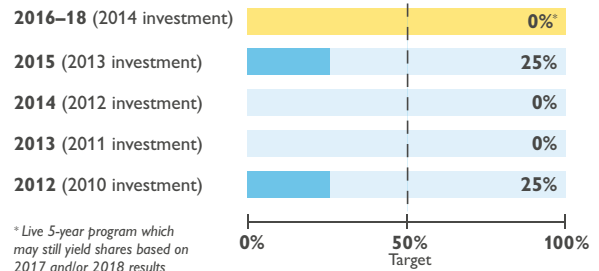
The historical pay-out under previous Share Incentive Plans issued on similar terms for the past five years is illustrated by the table to the right.

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

* Employees who have been employed with Oriflame for more than 10 years are under certain conditions entitled to parts of their Achievement Share contributions even if their employment has ended.

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

HISTORICAL OUTCOME OF ORIFLAME'S SHARE INCENTIVE PLANS



iv. Pensions

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

v. Other benefits

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

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

4.1 2016 Executive Management remuneration

The below remuneration covers the period 1 January 2016 to 31 December 2016. The executive management comprises the Corporate Committee, consisting of the CEO, the Deputy CEO and the CFO. There have been no changes to the Corporate Committee members during the period. The highest remunerated individual during the period was the CEO – Magnus Brännström.

2016 Executive management remuneration

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

Comments

- The actual total 2016 remuneration may be significantly below the indicated maximum total, as it includes the value of the maximum amount of Achievement Shares that can be delivered under the 2016 investments in the Share Incentive and Retention Plan.
- The maximum number of Achievement Shares is based on the number of Investment Shares allocated in 2016 under the Share Incentive Plan. The Investment Shares were allocated by the participants through the designation of either i) shares they already held at the time of the offer; or ii) new shares acquired at market price. The 2016 investments will vest during years 2019–2021 and the actual award will vary between 0 and 8 Achievement Shares per Investment Share depending on the Operating Profit development during the investment period.
- The maximum value of the Share Incentive Plan allocations is calculated using the fair value at grant date of EUR 15.22 per Investment Share and the maximum potential award under the Plan of 8 Achievement Shares per Investment Share.
- In addition to the remuneration listed in the above schedule, the 2013 investments under the Company's Share Incentive Plan vested during 2016, resulting in an award of 2 Achievement Shares per Investment Share. The Corporate Committee members thereby received achievement shares relating to their 2013 investments as follows:
 - All members (incl. the CEO): 41,040 shares
 - The CEO: 18,196 shares
- Other benefits includes the cash value of non-monetary benefits such as company cars/car allowance, company housing, health care premiums, schooling fees and other customary benefits. Other benefits also includes mandatory state pension and social security payments made by Oriflame totalling EUR 327,184 (CHF 351,363).
- Pensions includes contractual extra-ordinary pension payments to Executive management members based on reaching certain thresholds of age/time served in the company. The underlying regular pension contributions, as well as other fixed benefits remains unchanged versus 2015.
- For the purposes of this Compensation Report, the following EUR–CHF exchange rate has been used: 1.0739 (2015: 1.0835).

4.2 2015 Executive management remuneration

The below remuneration covers the period 1 January 2015 to 31 December 2015. There have been no changes to the Corporate Committee during the period. The highest remunerated individual was the CEO – Magnus Brännström.

2015 Executive management remuneration

Corporate Committee	Fixed Remuneration (EUR)	Profit Sharing plan (EUR)	Max no. of achievement shares	Maximum value (EUR)	Pensions (EUR)	Other benefits (EUR)	Maximum total (EUR)	Maximum total (CHF)
All members (incl. the CEO)	2,056,319	108,612	199,536	2,286,683	434,695	1,158,521	6,044,830	6,549,574
The CEO (Magnus Brännström)	802,949	53,604	110,272	1,263,717	184,678	180,305	2,485,253	2,692,772

Comments

- The actual total remuneration may be significantly below the indicated maximum total, as it includes the value of the maximum amount of Achievement Shares that can be delivered under the 2015 investments in the Share Incentive and Retention Plan.
- The maximum number of Achievement Shares is based on the number of Investment Shares allocated in 2015 under the Share Incentive Plan. The Investment Shares were allocated by the participants through the designation of either i) shares they already held at the time of the offer, or ii) new shares acquired at market price. The 2015 investments will vest during years 2018–2020 and the actual award will vary between 0 and 8 Achievement Shares per Investment Share depending on the Operating Profit development during the investment period.
- The maximum value of the Share Incentive Plan allocations is based on the fair value at grant date of EUR 11.46 per Investment Share and assuming maximum award under the Plan of 8 Achievement Shares per Investment Share.
- Other benefits includes the cash value of non-monetary benefits such as company cars/car allowance, company housing, health care premiums, schooling fees and other customary benefits. Other benefits also includes mandatory state pension and social security payments made by Oriflame totalling EUR 217,373 (CHF 235,524).
- For the purposes of this Compensation Report, the following 2015 EUR–CHF exchange rate has been used: 1.0835.

5. REMUNERATION TO THE BOARD OF DIRECTORS

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

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

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

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

6.1 2016 Board remuneration

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

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

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

** Board member since 17 May 2016

*** Board member until 17 May 2016

**** Audit Committee Chairman

6.2 2015 Board remuneration

The below Directors and Committee fees cover the period from the 1 January 2015 to the 31 December 2015.

Board of Directors	Title	Board fees	Membership fee – Audit Committee	Membership fee – Remuneration Committee	Total remuneration (EUR)	Total remuneration (CHF)	Other charges* (EUR)	Other charges* (CHF)
Lilian Fossum Biner	Board Member	29,000	10,000	5,000	44,000	47,674	9,359	10,140
Anders Dahlvig	Board Member	29,000	–	–	29,000	31,422	6,168	6,683
Alexander af Jochnick	Chairman of the Board	65,500	10,000	5,000	80,500	87,222	17,263	18,704
Jonas af Jochnick	Board Member	29,000	–	–	29,000	31,422	0	0
Robert af Jochnick	Board Member	29,000	–	–	29,000	31,422	6,219	6,738
Anna Malmhake	Board Member	29,000	–	–	29,000	31,422	6,219	6,738
Helle Kruse Nielsen	Board Member	29,000	10,000	–	39,000	42,257	0	0
Christian Salamon	Board Member	29,000	10,000	–	39,000	42,257	8,363	9,062

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

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

During 2016 and 2015, no remuneration has been paid to any former members of the Board of Directors or executive management.

8. DIRECTORSHIPS IN OTHER COMPANIES

The members of the Board of Directors may in accordance with the Articles of Association of the company hold no more than 10 board mandates in companies outside Oriflame. Such external engagements are listed on page 124–125 in the 2016 Annual Report.

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

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

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

Directors, no. of shares*	31 Dec 2016	31 Dec 2015
R. af Jochnick and family**	5,433,283	5,142,735
J. af Jochnick and family	4,362,898	4,367,190
Alexander af Jochnick	520,000	418,884
Magnus Brännström	321,196	303,000
Christian Salamon	14,500	14,500
Anders Dahlvig	13,650	13,650
Karen Tobiasen	–	N/A
Mona Abbasi	–	N/A
Anna Malmhake	–	–
Lilian Fossum Biner	N/A	1,000
Helle Kruse Nielsen	N/A	1,000

Corporate Committee, no. of shares*	31 Dec 2016	31 Dec 2015
Magnus Brännström	321,196	303,000
Jesper Martinsson	280,000	240,000
Gabriel Bennet	30,000	23,500

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

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

10. LOANS AND CREDITS TO DIRECTORS OR OFFICERS

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

11. OTHER REMUNERATION AND PAYMENTS TO RELATED PARTIES

There have been no further remuneration or payments to members of the Board of Directors or of the executive management in 2016.

Payments to other related parties during 2016 are presented in note 22 in the Annual Report 2016.

All related party payments have been for services provided on commercially sound terms, priced at arms length¹ and to the benefit of Oriflame.



Report of the Statutory Auditor

To the General Meeting of Oriflame Holding AG, Schaffhausen

Report on the Audit of the Compensation Report

We have audited the accompanying compensation report of Oriflame Holding AG for the year ended 31 December 2016. The audit was limited to the information according to articles 14-16 of the Ordinance against Excessive compensation in Stock Exchange Listed Companies contained in the sections "Executive Management remuneration (2016 and 2015)" and "Board remuneration (2016 and 2015)", on pages 59 to 61 of the compensation report.

Responsibility of the Board of Directors

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the compensation report for the year ended 31 December 2016 of Oriflame Holding AG complies with Swiss law and articles 14 – 16 of the Ordinance.

KPMG AG

Hélène Béguin
Licensed Audit Expert
Auditor in Charge

Kathrin Schünke
Licensed Audit Expert

Zurich, 12 April 2017

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

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Consolidated income statements

YEAR ENDED 31 DECEMBER

€'000	Note	2016	2015
Sales		1,249,382	1,211,563
Cost of sales		(366,467)	(373,248)
Gross profit		882,915	838,315
Other income	4	44,331	44,124
Selling and marketing expenses		(449,516)	(443,117)
Distribution and infrastructure		(94,056)	(93,336)
Administrative expenses	5, 6, 7, 8	(264,490)	(255,347)
Operating profit*		119,184	90,639
Financial income	9	21,858	62,679
Financial expenses	9	(40,512)	(86,031)
Net financing costs		(18,654)	(23,352)
Net profit before income tax		100,530	67,287
Current tax	10	(39,228)	(34,395)
Deferred tax	10, 14	5,412	1,279
Total income tax expense	10	(33,816)	(33,116)
Net profit		66,714	34,171
Earnings per share, €	11		
Basic		1.20	0.62
Diluted		1.18	0.62

* The analysis of operating profit is disclosed in note 27.

The attached notes on pages 69 to 105 form an integral part of the consolidated financial statements.

Consolidated statements of comprehensive income

YEAR ENDED 31 DECEMBER

€'000	Note	2016	2015
Net profit		66,714	34,171
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Revaluation reserve		(230)	(110)
Remeasurements of net defined benefit liability, net of tax	25	(316)	(250)
<i>Total items that will not be reclassified subsequently to profit or loss</i>		<i>(546)</i>	<i>(360)</i>
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Foreign currency translation differences for foreign operations	19	12,299	(23,812)
Effective portion of changes in fair value of cash flow hedges, net of tax	9	(2,719)	(948)
<i>Total items that are or may be reclassified subsequently to profit or loss</i>		<i>9,580</i>	<i>(24,760)</i>
Other comprehensive income for the year, net of tax		9,034	(25,120)
Total comprehensive income for the year attributable to the owners of the company		75,748	9,051

The attached notes on pages 69 to 105 form an integral part of the consolidated financial statements.

Consolidated statements of financial position

		31 December	31 December
€'000	Note	2016	2015
Assets			
Property, plant and equipment	12	164,831	153,138
Intangible assets	13	13,849	17,356
Investment property		542	542
Deferred tax assets	14	25,702	20,796
Other long-term receivables		948	992
Total non-current assets		205,872	192,824
Inventories	15	166,833	162,514
Trade and other receivables	16	71,352	62,725
Tax receivables		7,647	7,051
Prepaid expenses		36,283	37,032
Derivative financial assets	26.3	72,338	85,098
Cash and cash equivalents	17	185,469	176,384
Total current assets		539,922	530,804
Total assets		745,794	723,628

		31 December	31 December
€'000	Note	2016	2015
Equity			
Share capital	18	79,850	79,788
Treasury shares	18	(90)	(621)
Share premium	18	632,085	654,381
Reserves	19	(167,017)	(178,675)
Retained earnings		(333,104)	(401,416)
Total equity attributable to the owners of the company		211,724	153,457
Liabilities			
Interest-bearing loans	20	199,713	343,437
Other long-term liabilities		3,691	839
Net defined benefit liability	25	3,859	3,652
Deferred income		296	324
Deferred tax liabilities	14	2,869	3,860
Total non-current liabilities		210,428	352,112
Current portion of interest-bearing loans	20	66,836	2,963
Trade and other payables		95,292	82,345
Dividend payables		11,167	—
Deferred income		421	767
Tax payables		17,032	15,324
Accrued expenses	28	122,208	99,072
Derivative financial liabilities	26.3	5,458	3,785
Provisions	24	5,228	13,803
Total current liabilities		323,642	218,059
Total liabilities		534,070	570,171
Total equity and liabilities		745,794	723,628

The attached notes on pages 69 to 105 form an integral part of the consolidated financial statements.

Consolidated statements of changes in equity

YEAR ENDED 31 DECEMBER 2016

€'000	Note	Attributable to the owners of the company								Retained earnings	Non-controlling interests		Total Equity
		Share capital	Treasury shares	Share premium	Legal reserve	Translation reserve	Hedging reserve	Other reserves	Total reserves		Total		
At 1 January 2015		71,527	(41,235)	15,324	7,363	(156,597)	(1,396)	–	(150,630)	245,931	140,917	–	140,917
Net profit		–	–	–	–	–	–	–	–	34,171	34,171	–	34,171
Other comprehensive income													
Remeasurements of net defined benefit liability, net of tax		–	–	–	–	–	–	–	–	(250)	(250)	–	(250)
Revaluation reserve		–	–	–	–	(110)	–	–	(110)	–	(110)	–	(110)
Foreign currency translation differences for foreign operations		–	–	–	–	(23,812)	–	–	(23,812)	–	(23,812)	–	(23,812)
Effective portion of changes in fair value of cash flow hedges, net of tax		–	–	–	–	–	(948)	–	(948)	–	(948)	–	(948)
Total other comprehensive income for the year, net of income tax		–	–	–	–	(23,922)	(948)	–	(24,870)	(250)	(25,120)	–	(25,120)
Total comprehensive income for the year, net of income tax		–	–	–	–	(23,922)	(948)	–	(24,870)	33,921	9,051	–	9,051
Share Incentive and Retention plan	21	–	–	–	–	–	–	3,489	3,489	–	3,489	–	3,489
Changes due to legal restructuring of parent company	18	(1,935)	40,693	567,316	(7,363)	18,875	719	(218)	12,013	(639,577)	(21,490)	21,490	–
Total contributions and distributions		(1,935)	40,693	567,316	(7,363)	18,875	719	3,271	15,502	(639,577)	(18,001)	21,490	3,489
Acquisition of non-controlling interests	18	10,196	(79)	71,741	–	(18,176)	(719)	218	(18,677)	(41,691)	21,490	(21,490)	–
Total changes in ownership interests		10,196	(79)	71,741	–	(18,176)	(719)	218	(18,677)	(41,691)	21,490	(21,490)	–
At 31 December 2015		79,788	(621)	654,381	–	(179,820)	(2,344)	3,489	(178,675)	(401,416)	153,457	–	153,457
At 1 January 2016		79,788	(621)	654,381	–	(179,820)	(2,344)	3,489	(178,675)	(401,416)	153,457	–	153,457
Net profit		–	–	–	–	–	–	–	–	66,714	66,714	–	66,714
Other comprehensive income													
Remeasurements of net defined benefit liability, net of tax		–	–	–	–	–	–	–	–	(316)	(316)	–	(316)
Revaluation reserve		–	–	–	–	(230)	–	–	(230)	–	(230)	–	(230)
Foreign currency translation differences for foreign operations		–	–	–	–	12,299	–	–	12,299	–	12,299	–	12,299
Effective portion of changes in fair value of cash flow hedges, net of tax		–	–	–	–	–	(2,719)	–	(2,719)	–	(2,719)	–	(2,719)
Total other comprehensive income for the year, net of income tax		–	–	–	–	12,069	(2,719)	–	9,350	(316)	9,034	–	9,034
Total comprehensive income for the year, net of income tax		–	–	–	–	12,069	(2,719)	–	9,350	66,398	75,748	–	75,748
Issue of ordinary shares in relation to Share Incentive and Retention Plan	18	62	–	–	–	–	–	(862)	(862)	800	–	–	–
Treasury shares used in relation to Share Incentive and Retention Plan	18	–	541	–	–	–	–	(1,655)	(1,655)	1,114	–	–	–
Purchase of treasury shares	18	–	(10)	–	–	–	–	–	–	–	(10)	–	(10)
Share Incentive and Retention Plan	21	–	–	–	–	–	–	4,825	4,825	–	4,825	–	4,825
Dividends	19	–	–	(22,296)	–	–	–	–	–	–	(22,296)	–	(22,296)
Total contributions and distributions		62	531	(22,296)	–	–	–	2,308	2,308	1,914	(17,481)	–	(17,481)
At 31 December 2016		79,850	(90)	632,085	–	(167,751)	(5,063)	5,797	(167,017)	(333,104)	211,724	–	211,724

The attached notes on pages 69 to 105 form an integral part of the consolidated financial statements.

Consolidated statements of cash flows

YEAR ENDED 31 DECEMBER

€'000	Note	2016	2015
Operating activities			
Net profit before income tax		100,530	67,287
Adjustments for:			
Depreciation of property, plant and equipment	8, 12	18,260	19,319
Amortisation of intangible assets	8, 13	2,883	3,990
Impairment	12, 13	3,013	–
Change in fair value of borrowings and derivatives financial instruments	9	3,580	20,716
Deferred income		(482)	(1,700)
Share Incentive and Retention Plan		4,825	3,489
Unrealised exchange rate differences		(16,000)	(7,612)
Profit on disposal of property, plant and equipment, intangible assets	12	(847)	(885)
Financial income	9	(19,870)	(20,403)
Financial expenses	9	27,067	32,194
Operating profit before changes in working capital and provisions		122,959	116,395
Decrease/(increase) in trade and other receivables, prepaid expenses and derivative financial assets		(9,076)	65,611
Decrease in inventories		16,363	8,162
Increase/(decrease) in trade and other payables, accrued expenses and derivative financial liabilities		38,487	(29,542)
Increase/(decrease) in provisions		(3,185)	2,508
Cash generated from operations		165,548	163,134

€'000	Note	2016	2015
Cash generated from operations		165,548	163,134
Interest received		18,497	20,000
Interest and bank charges paid		(26,533)	(32,568)
Income taxes paid		(44,388)	(28,352)
Cash flow from operating activities		113,124	122,214
Investing activities			
Proceeds on sale of property, plant and equipment, intangible assets		1,305	2,343
Purchases of property, plant and equipment		(11,288)	(16,008)
Purchases of intangible assets		(1,877)	(1,797)
Cash flow used in investing activities		(11,860)	(15,462)
Financing activities			
Repayments of borrowings		(72,013)	(21,757)
Acquisition of own shares		(10)	–
Repayment of finance lease liabilities		(4)	(31)
Dividends paid		(11,130)	(3)
Cash flow used in financing activities		(83,157)	(21,791)
Change in cash and cash equivalents		18,107	84,961
Cash and cash equivalents at the beginning of the year net of bank overdrafts		176,384	95,515
Effect of exchange rate fluctuations on cash held		(9,126)	(4,092)
Cash and cash equivalents at the end of the year net of bank overdrafts	17	185,365	176,384

The attached notes on pages 69 to 105 form an integral part of the consolidated financial statements.

Notes to the consolidated financial statements

NOTE 1 • STATUS AND PRINCIPAL ACTIVITY

Oriflame Holding AG ("OHAG" or the "company") is a holding company incorporated in Switzerland and registered at Bleicheplatz 3, CH-8200 Schaffhausen. The principal activity of the company's subsidiaries is the direct sale of cosmetics. The consolidated financial statements of the company as at and for the year ended 31 December 2016 comprises the company and its subsidiaries (together referred to as the "Group").

NOTE 2 • BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements of Oriflame Holding AG have been prepared by management in accordance with International Financial Reporting Standards (IFRS) and the interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). The company prepared STATUTORY FINANCIAL STATEMENTS in accordance with Swiss law. The financial statements were authorised for issue by the Board of Directors on 12 April 2017.

(b) Basis of preparation

The consolidated financial statements are presented in euro, rounded to the nearest thousand. They are prepared on a historic cost basis, except for financial instruments that are stated at fair value and the net defined benefit liability that is stated at fair value of plan assets less present value of the defined benefit obligation.

(c) Use of estimates and judgements

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 10 and 14 – utilisation of tax losses
- Note 15 – inventory reserves
- Note 21 – measurement of share-based payments
- Note 24 – provisions and contingencies
- Note 25 – pensions
- Note 26 – valuation of financial instruments.

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

(d) Changes in accounting policies and presentation

As of 1 January 2016, Oriflame Holding AG adopted amendments to standards which became effective 1 January 2016. These new amendments to accounting standards had no material effect on the consolidated financial statements.

(e) Basis and scope of consolidation

The company prepares consolidated financial statements that aggregate the assets and liabilities and income and expenses of the company and its subsidiaries. Subsidiaries are defined as entities controlled by the Group.

The Group controls a subsidiary when it is exposed, or has rights to, variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases.

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

The scope of consolidation is affected by acquisitions and disposals.

(f) Foreign currencies

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

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

(g) Business combinations and related goodwill

Business combinations are accounted for using the acquisition method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The consideration transferred is measured at fair value and includes the fair value of any contingent consideration. The acquisition-related costs are charged to the income statement in the period in which they are incurred.

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

(h) Derivative financial assets and liabilities

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

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

(i) Hedging

(i) Cash flow hedges

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

The ineffective part of any gain or loss is recognised in the consolidated income statements immediately.

Note 2 continued

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

(ii) Hedges of monetary assets and liabilities

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

(iii) Hedge of net investment in foreign operation

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

(j) Sales revenue and other income

(i) Sale of goods

Revenue, which excludes value added tax and other applicable turnover taxes, represent sales to individual sales consultants and licensed distributors or, in the case of mail order and retail sales, to individual customers or, in case of 3rd party suppliers, royalties income. Sales are recognised in the consolidated income statements when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due.

(ii) Loyalty programmes

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

(iii) Other income

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

(k) Employee benefits

(i) Pension obligations

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

For defined benefit pension plans, the net defined benefit liability represents the present value of the defined benefit obligation less the fair value of plan assets. It is calculated by independent actuaries using the projected unit credit method. The costs related to the defined benefit plans are recognised in the income statement as staff cost in administrative expenses. They cover service cost (current and past service cost, gains and losses arising from settlement), administrative costs and net interest expense.

Remeasurements of the net defined benefit liability are reported in other comprehensive income. They comprise experience adjustments (differences between previous actuarial assumptions and what has actually occurred), changes in actuarial assumptions and the actual return on plan assets, excluding interest income.

(ii) Equity related compensation

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

(l) Taxation

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

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

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

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

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

(m) Intangible assets

(i) Goodwill

Goodwill arising on acquisition represents the excess of the cost of acquisition over the fair value of the net identifiable assets acquired. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units. Refer to (g) and (s) for additional information.

(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.

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

(iii) Subsequent expenditure

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

(iv) Research and development

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

(v) Amortisation

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

(n) Property, plant and equipment

(i) Owned assets

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

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

(ii) Leased assets

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

(iii) Subsequent costs

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

Note 2 continued

(iv) Depreciation

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

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

(o) Investment property

Investment properties are properties that are held either to earn rental income or for capital appreciation or for both. Investment property is recorded at cost less accumulated depreciation. Depreciation is charged to the consolidated income statements on a straight line basis with rates between 2 to 5 percent per year. The rental income is recognised within other income in the consolidated income statements.

(p) Inventory

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

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Provision is made for obsolete, slow moving or defective items, where appropriate.

(q) Trade receivables

Trade receivables are initially measured at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest rate method.

(r) Cash and cash equivalents

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

(s) Impairment

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

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

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

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

(t) Share capital

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

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

(u) Interest-bearing loans

(i) Loans at amortised cost

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

(ii) Loans at fair value designated as such upon initial recognition

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

(v) Government grants

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

(w) Provisions

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

(i) Restructuring

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

(x) Expenses

(i) Operating lease payments

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

(ii) Finance lease payments

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

(iii) Net financing costs

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

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

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

(y) Segment reporting

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

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses. Operating segment's operating results are reviewed regularly by the Corporate Committee to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the Corporate Committee include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate and overhead assets, liabilities and expenses not allocated to the operating segments. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill. In the framework of the entity-wide disclosures regarding "information about geographical areas", the Management is of the opinion that materiality threshold is 10 percent for Group purposes.

Note 2 continued

(z) Hyperinflation accounting

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

(aa) New standards and interpretations not yet adopted

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

New Standards or Interpretations		Effective date (IASB)	Planned application by the Group in reporting year
IFRS 9 Financial Instruments	1)	1 January 2018	Reporting year 2018
IFRS 15 Revenue from Contracts with Customers	2)	1 January 2018	Reporting year 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	3)	1 January 2018	Reporting year 2018
IFRS 16 Leases	4)	1 January 2019	To be determined

Revisions and amendments of Standards and Interpretations

Disclosure initiative (Amendments to IAS 7)	1)	1 January 2017	Reporting year 2017
Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)	3)	1 January 2017	Reporting year 2017
Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	5)	1 January 2018	Reporting year 2018

1) The impact on the consolidated financial statements is expected to result in additional disclosures or changes in presentation.

2) IFRS 15 was issued in May 2014 by the IASB, effective for annual periods beginning on or after 1 January 2018. It includes new revenue recognition principles, in particular about identifying one or more performance obligation within a contract, allocating the transaction price to the performance obligation(s) and how variable considerations are recognized. New disclosure requirements are also requested.

Oriflame is in the process of investigating and quantifying the impact of the new standard. Oriflame has identified some areas where material changes compared to the current treatment under IAS 18 might apply. The review of our various sales incentive programs has shown that the treatment of the variable considerations will change and therefore a lower one single digit % amount of sales is expected to be deferred by the initial application of the standard. Furthermore, some selling expenses, freight costs in administrative expenses and the other income should be reclassified as part of the gross profit. Overall impact will reduce Gross Margin due to lower sales and higher Cost of sales, partially offset by lower sales & marketing expenses and as well lower administrative expenses. Oriflame intends to apply IFRS 15 with effect from January 2018 using the cumulative effect method of adoption.

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

4) In January 2016, the IASB issued IFRS 16 Leases, which changes the accounting treatment for operating leases. It will lead to a liability recognized in the statement of financial position for future lease payments and an asset for the associated rights of use. The application of IFRS 16 will also require a change in the presentation of lease expenses both in the income statement (i.e. depreciation and interest expense) and in the statement of cash flows (the amount allocated to repayment of the liability will be reported as a cash outflow from financing activities, while the amount allocated to the asset will be reported as a cash outflow from investing activities).

Oriflame is currently reviewing the impact of the new standard with the intention to apply it from 1 January 2018.

5) The impact has not been assessed yet.

NOTE 3 • SEGMENT REPORTING

Operating segments

The five main reportable segments have changed from 1 January 2016 to reflect the new Global Business Area structure. From this date, the new reportable segments, which represent the structure of financial information reviewed by the Corporate Committee, consist of the following: Latin America, Europe & Africa, CIS, Asia & Turkey and Manufacturing. The prior year figures as per 31 December 2015 were adjusted accordingly in order to compare the new Global Business Area structure.

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

segments" includes mail order business, licensee sales and royalties income. The performance of each market and region is measured by the operating profit. Sales presented in the segment reporting are only revenues from external customers.

Unallocated items

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

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

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

As per 31 December 2016

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

As per 31 December 2015

€'000	Latin America	Europe & Africa	CIS	Asia & Turkey	Manufacturing	All other segments	Total segments	Unallocated items	Total
Sales	136,938	329,069	386,988	348,887	3,073	6,608	1,211,563	–	1,211,563
Operating Profit	15,957	49,594	35,498	54,096	6,161	1,908	163,214	(72,575)	90,639
Net financing costs	–	–	–	–	–	–	–	–	(23,352)
Net profit before income tax	–	–	–	–	–	–	–	–	67,287
Total income tax expense	–	–	–	–	–	–	–	–	(33,116)
Net profit	–	–	–	–	–	–	–	–	34,171
Capital Expenditure	(2,610)	(1,410)	(2,254)	(2,127)	(5,961)	–	(14,362)	(3,443)	(17,805)
Depreciation & Amortisation	(1,208)	(2,316)	(3,187)	(2,294)	(5,736)	–	(14,741)	(8,568)	(23,309)
Goodwill	–	1,053	–	4,345	–	–	5,398	–	5,398

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

€ million	2016	2015
Russia	210.8	234.4
China	139.1	80.7
Switzerland	0.4	–
Other	899.1	896.5
Total	1,249.4	1,211.6

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

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

€ million	2016	2015
Russia	104.7	87.5
Poland	20.0	21.3
Switzerland	0.8	1.0
Other	53.7	61.2
Total	179.2	171.0

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

A major country is defined as one with total non-current assets greater than 10 percent of consolidated non-current assets.

Sales by product category

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

€ million	2016	2015
Skin Care	337.3	302.9
Colour Cosmetics	287.3	278.7
Fragrances	249.9	242.3
Personal and Hair Care	199.9	206.0
Accessories	75.0	96.9
Wellness	100.0	84.8
Total	1,249.4	1,211.6

Major customers

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

NOTE 4 • OTHER INCOME

Other income is composed of:

€'000	2016	2015
Freight income	27,547	25,280
Printing income	16,089	16,228
Rental income	290	1,191
Other	405	1,366
Other income	44,331	44,124

NOTE 5 • EMPLOYEE BENEFIT EXPENSE

€'000	2016	2015
Salaries and wages	132,147	131,244
Social security contributions	25,199	27,825
Pension expenses	6,341	10,236
Equity settled transactions	4,825	3,489
	168,512	172,794

The average number of full-time equivalents in 2016 was 6,233 (6,535).

NOTE 6 • AUDITORS' REMUNERATION

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

€'000	2016	2015
Remuneration for the audit of annual and consolidated accounts	1,870	1,726
Remuneration for tax advisory services	367	471
Remuneration for other services	313	403
	2,550	2,600

NOTE 7 • RESEARCH AND DEVELOPMENT

€'000	2016	2015
Research and development	10,653	10,532

NOTE 8 • DEPRECIATION AND AMORTISATION

€'000	2016	2015
Depreciation	18,260	19,319
– in cost of sales	8,866	8,914
– in administrative expenses	9,394	10,405
Amortisation	2,883	3,990
– in cost of sales	108	82
– in administrative expenses	2,775	3,908
Depreciation and amortisation expenses	21,143	23,309

NOTE 9 • FINANCIAL INCOME AND EXPENSES

€'000	2016	2015
Interest income on bank deposits and receivables	4,789	2,568
Interest received on finance lease receivable	46	37
Gross currency interest rate swaps income	15,035	17,798
Change in fair value of financial assets and liabilities at fair value held for trading:		
– Forward exchange rate contracts gain	–	15,478
– Interest rate caps gain	–	558
– Cross currency interest rate swaps gain	–	17,085
Change in fair value of financial assets and liabilities at fair value designated as such upon initial recognition:		
– USD loan fair value gain	1,988	–
Foreign exchange gain, net	–	9,155
Total financial income	21,858	62,679

€'000	2016	2015
Bank charges and interest expense on loans carried at amortised cost	(9,201)	(11,330)
Interest expense on loan carried at fair value	(10,631)	(11,939)
Gross currency interest rate swaps expense	(7,234)	(8,925)
Change in fair value of financial assets and liabilities at fair value held for trading:		
– Forward exchange rate contracts loss	(1,837)	(32,832)
– Interest rate caps loss	(748)	–
– SEK collar option	–	(3,966)
– Cross currency interest rate swaps loss	(2,984)	–
Change in fair value of financial assets and liabilities at fair value designated as such upon initial recognition:		
– USD loan fair value loss	–	(17,039)
Foreign exchange losses, net	(7,877)	–
Total financial expenses	(40,512)	(86,031)

Net financing costs	(18,654)	(23,352)
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Recognised in other comprehensive income

€'000	2016	2015
Changes in fair value of cash flow hedges	(2,452)	4,383
Tax on changes in fair value of cash flow hedges	166	(150)
Changes in fair value of cash flow hedges reclassified to profit or loss:		
– Cost of sales	(474)	(5,757)
– Current tax	41	576

Effective portion of changes in fair value of cash flow hedges, net of tax	(2,719)	(948)
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NOTE 10 • INCOME TAX EXPENSE

Recognised in the consolidated income statements €'000		
	2016	2015
Current year tax expense	39,179	33,991
Change in estimate related to prior years	49	404
Current tax expense	39,228	34,395
Deferred tax expense/ (income):		
– Origination and reversal of temporary differences	(17,021)	276
– Changes in tax rates	(48)	68
– Utilisation of tax losses carried forward**	4,761	617
– Recognition of previously unrecognised – (derecognition of previously recognised) deductible temporary differences / tax losses	8,747	152
– Recognition of previously unrecognised tax losses carried forward	(1,851)	(2,392)
Deferred tax	(5,412)	(1,279)
Total income tax expense in the consolidated income statements	33,816	33,116
Reconciliation of effective tax rate		
Net profit before income tax	100,530	67,287
Average applicable tax rate, %*	24.6	25.6
%	2016	2015
Adjustments to tax expenses		
Non-deductible expenses	4.8	14.9
Utilisation of previously unrecognised tax losses carried forward	(1.1)	(5.6)
Recognition of previously unrecognised tax losses carried forward	(1.8)	(3.6)
Recognition of previously unrecognised (derecognition of previously recognised) deductible temporary differences	(0.1)	(2.3)
Increase of tax provision***	1.0	10.9
Withholding taxes	4.2	7.7
Other taxes	0.6	1.0
Change in estimate related to prior years	0.7	0.6
Current year losses for which no deferred tax asset is recognised	0.7	–
Effective tax rate	33.6	49.2

Average applicable tax rate is calculated as weighted average from separate countries tax reconciliations using the domestic tax rate in each individual jurisdiction. The tax rates of the Group's subsidiaries vary between 0 percent and 35 percent.

* Tax at applicable tax rate 24.6% (25.6%) decreased due to slightly different country mix and increased weight of low tax jurisdictions in Oriflame growth markets.

** The utilization of losses carried forward are higher regarding to the increasing profitability in countries that were previously loss-making.

*** In tax provision the higher comparatives for 2015 is related to the Russian tax provision created in prior year and used during the period.

NOTE 11 • EARNINGS PER SHARE

(a) Basic

Earnings per share are based on the net profit attributable to ordinary shareholders of €66,714 (€34,171) and the weighted average number of shares outstanding during the year. Treasury shares are deducted in calculating the weighted average number of shares outstanding.

Number of shares	2016	2015
Weighted average number of shares outstanding	55,691,352	54,868,150
Basic earnings per share, EUR	1.20	0.62

(b) Diluted

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

Number of shares	2016	2015
Weighted average number of shares outstanding	56,537,639	54,868,150
Diluted earnings per share, EUR	1.18	0.62

NOTE 12 • PROPERTY, PLANT AND EQUIPMENT

€'000	Freehold land & buildings	Improvements to leasehold property	Plant & machinery	Furniture & equipment	Computer equipment	Motor vehicles	Under construction	Total
Cost								
At 31 December 2014	134,528	31,874	93,614	22,984	27,790	5,001	6,073	321,864
Additions	1,167	2,682	6,068	1,947	3,277	867	—	16,008
Disposals	(3,287)	(2,049)	(1,174)	(1,134)	(2,821)	(491)	—	(10,956)
Re-classification	1,308	1,373	3,392	—	—	—	(6,073)	—
Translation	(13,143)	(1,301)	(3,661)	(855)	(1,508)	(234)	—	(20,702)
At 31 December 2015	120,573	32,579	98,239	22,942	26,738	5,143	—	306,214
Additions	390	2,800	3,926	975	2,533	664	—	11,288
Disposals	(514)	(2,355)	(851)	(1,972)	(2,757)	(633)	—	(9,082)
Translation	17,933	186	3,684	11	683	(77)	—	22,420
At 31 December 2016	138,382	33,210	104,998	21,956	27,197	5,097	—	330,840
Accumulated depreciation and impairment								
At 31 December 2014	21,591	19,478	63,739	18,161	22,932	3,059	—	148,960
Charge for the year	3,676	3,473	6,824	1,899	2,568	879	—	19,319
Disposals	(2,364)	(1,637)	(1,142)	(1,110)	(2,785)	(460)	—	(9,498)
Re-classification	(842)	842	—	—	—	—	—	—
Translation	(1,072)	(827)	(1,854)	(577)	(1,186)	(189)	—	(5,705)
At 31 December 2015	20,989	21,329	67,567	18,373	21,529	3,289	—	153,076
Charge for the year	3,298	3,126	6,690	1,861	2,585	700	—	18,260
Impairment	180	23	238	50	49	—	—	540
Disposals	(368)	(2,269)	(811)	(1,918)	(2,661)	(597)	—	(8,624)
Translation	1,193	30	1,217	(8)	363	(38)	—	2,757
At 31 December 2016	25,292	22,239	74,901	18,358	21,865	3,354	—	166,009
Net Book Value								
At 31 December 2014	112,937	12,396	29,875	4,823	4,858	1,942	6,073	172,904
At 31 December 2015	99,584	11,250	30,672	4,569	5,209	1,854	—	153,138
At 31 December 2016	113,090	10,971	30,097	3,598	5,332	1,743	—	164,831

Finance leases €'000

At 31 December 2016, no finance lease was included in the net book value of property, plant and equipment (€2).

Impairment €'000

During 2016, the Group recognised in Administration expenses an impairment loss of €540 (€0). This is mainly due to the partnership concluded with IBM where fixed assets utilised by the shared services centres were no longer used.

Contractual commitment

At year-end 2016, there is no contractual commitment (nil).

Disposals

In 2016, the Group sold property, plant and equipment with a net book value of €0.5 million (€1.5 million) resulting in a profit on disposal of property, plant and equipment of €0.8 million (€0.9 million) booked as Administrative expenses in the income statement.

NOTE 13 • INTANGIBLE ASSETS

€'000	Software	Trademarks	Intangible property rights	Goodwill	Under development	Total
Cost						
At 31 December 2014	39,316	1,590	3,330	10,673	—	54,909
Additions	1,177	106	—	—	513	1,796
Disposals	(103)	—	—	—	—	(103)
Translation	(477)	—	—	—	—	(477)
At 31 December 2015	39,913	1,696	3,330	10,673	513	56,125
Additions	1,626	251	—	—	—	1,877
Disposals	(8,232)	—	—	—	—	(8,232)
Re-classification	509	—	—	—	(509)	—
Translation	674	—	—	—	(4)	670
At 31 December 2016	34,490	1,947	3,330	10,673	—	50,440
Accumulated amortisation and impairment						
At 31 December 2014	29,166	906	30	5,275	—	35,377
Charge for the year	3,852	138	—	—	—	3,990
Disposals	(103)	—	—	—	—	(103)
Translation	(495)	—	—	—	—	(495)
At 31 December 2015	32,420	1,044	30	5,275	—	38,769
Charge for the year	2,748	135	—	—	—	2,883
Impairment	2,473	—	—	—	—	2,473
Disposals	(8,232)	—	—	—	—	(8,232)
Translation	698	—	—	—	—	698
At 31 December 2016	30,107	1,179	30	5,275	—	36,591
Net Book Value						
At 31 December 2014	10,150	684	3,300	5,398	—	19,532
At 31 December 2015	7,493	652	3,300	5,398	513	17,356
At 31 December 2016	4,383	768	3,300	5,398	—	13,849

Note 13 continued

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 discount rate of 9 percent (9 percent). The recoverable amounts of the goodwill are determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial forecasts made by Group Management covering a five year period (five year period).

The preparation of the forecast requires a number of key assumptions such as volume, price, product mix, which will create a basis for future growth and gross profit. These figures are set in relation to historic figures and external reports on market growth. Growth rate assumptions used for the evaluation are in line with market growth data. Average market growth rates for the five-year period are for Portugal 4 percent (3 percent) and India 13 percent (13 percent).

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

Based on the above assumptions Management made several sensitivity analyses and came to the conclusion that any reasonably possible adverse change in the key assumptions would not reduce the recoverable amount below its carrying amount. No impairment loss was recognised in 2016 and 2015.

Intangible property rights

At the beginning of 2009 the group has purchased the intangible property rights for a dry food composition technology used in some of our wellness products. This technology is used throughout the Group where wellness products are sold, and therefore is not allocated to a specific geographic segment. The useful life of this technology was classified as indefinite as Oriflame has an exclusive, perpetual, unlimited right to use it. The recoverable amount is determined based on value-in-use calculations. These calculations use pre-tax cash flow projection based on financial forecast covering a five year period (five year period). Calculation was based on an annual discount rate of 9 percent (9 percent) and a market growth rate of 15 percent (7 percent).

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

Based on the above assumptions Management made several sensitivity analyses and came to the conclusion that any reasonably possible adverse change in the key assumptions would not reduce the recoverable amount below its carrying amount. No impairment loss was recognised in 2016 and 2015.

Software Property rights €'000

In 2016, there were no costs for own developed software included in software additions (€551).

Impairment €'000

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

NOTE 14 • DEFERRED TAXATION

Deferred tax assets and liabilities at 31 December 2016 and 2015 are attributable to the items detailed in the table below:

€'000	2016			2015			Movement
	Assets	Liabilities	Net	Assets	Liabilities	Net	
Property, plant and equipment & intangible assets	2,742	(3,304)	(562)	1,490	(2,058)	(568)	6
Inventories	8,231	(1,392)	6,839	6,506	(1,688)	4,818	2,021
Trade and other receivables	5,427	(795)	4,632	2,153	(739)	1,414	3,218
Accruals	7,200	(7,072)	128	5,281	(16,960)	(11,679)	11,807
Other	6,048	(488)	5,560	4,251	(1,061)	3,190	2,370
Tax losses carried forward	6,236	–	6,236	19,761	–	19,761	(13,525)
Tax assets/(liabilities) before set off	35,884	(13,051)	22,833	39,442	(22,506)	16,936	5,897
Set off of tax	(10,182)	10,182		(18,646)	18,646		
Net tax assets /liabilities	25,702	(2,869)	22,833	20,796	(3,860)	16,936	

Recognised in other comprehensive income in relation to cash flow hedges 166

Recognised in other comprehensive income in relation to remeasurements of the net defined benefit liability 43

Translation difference (694)

Deferred tax income 5,412

Recognition of deferred tax assets

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

Unrecognised deferred tax assets

Deferred tax assets on tax losses have not been recognised:

€'000	2016	2015
Tax losses*	164,270	119,828

* Of which €2.0 million (€4.2 million) expire within one year, €15.0 million (€8.4 million) expire between one and five years and €147.3 million (€107.2 million) in more than 5 years.

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

NOTE 15 • INVENTORIES

€'000	2016	2015
Raw materials	16,318	11,078
Work in progress	352	26
Finished goods	160,128	160,501
Other inventories	16,765	11,664
Inventory reserves	(26,730)	(20,755)
Total inventory	166,833	162,514

During 2016 the Group wrote down €6.8 million (€1.6 million) inventory mainly due to obsolescence.

The carrying amount of inventories carried at fair value less cost to sell was €7.3 million (€11.2 million).

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

The amount of inventories recognised as expenses in cost of sales during the year 2016 were €366.5 million (€373.2 million).

NOTE 16 • TRADE AND OTHER RECEIVABLES

€'000	2016	2015
Trade receivables	45,340	44,274
Other receivables	26,012	18,451
Trade and other receivables	71,352	62,725

Exposure to credit risk

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

€'000	2016	2015
Latin America	14,016	10,747
Europe & Africa	14,800	14,167
CIS	6,243	9,284
Turkey & Asia	10,281	10,076
	45,340	44,274

The ageing of trade receivables at the reporting date was:

	Gross	Impairment	Gross	Impairment
€'000	2016	2016	2015	2015
Not past due	39,119	635	38,542	527
Past due 21–180 days	9,847	3,915	9,379	3,423
Past due 181–360 days	3,587	3,177	3,094	2,964
Past due 12–18 months	4,578	4,069	3,820	3,780
Past due > 18 months	15,903	15,898	14,118	13,985
	73,034	27,694	68,953	24,679

Based on experience the Group records an impairment allowance on trade receivables not past due, which usually is around 1 to 3 percent. This allowance varies from market to market depending on the latest trends in collectability of the trade receivables.

Note 16 continued

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

€'000	2016	2015
Balance at 1 January	24,679	24,668
Bad debts allowance recognised in the income statement	5,875	6,285
Utilisation of the bad debts allowance	(2,860)	(6,274)
Balance at 31 December	27,694	24,679

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

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

NOTE 17 • CASH AND CASH EQUIVALENTS NET OF BANK OVERDRAFTS

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

€'000	2016	2015
Cash	182,444	159,889
Short term deposits	3,025	16,495
Total cash	185,469	176,384
Bank overdrafts	(104)	–
Total	185,365	176,384

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

NOTE 18 • SHARE CAPITAL AND SHARE PREMIUM

Share Capital

Oriflame Holding AG ('OHAG'), the parent company has one class of share capital. In addition to the shares already issued and presented below, the Board of Directors shall be authorized to increase fully or partially the share capital in an amount not to exceed CHF 13,174,326 through the issuance of up to 8,782,884 fully paid-in shares with a nominal value of CHF 1.50 per share by not later than 19 June 2017.

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

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

	No. of shares	€'000
Share capital		
Balance 1 January 2015	57,221,972	71,527
Change in common shares associated with change in parent company (i)		
– Derecognition of previous parent company	(57,221,972)	(71,527)
– Change to the new parent company	55,708,563	79,788
Balance 31 December 2015	55,708,563	79,788
Issue of ordinary shares in relation to share incentive plan (iii a)	45,402	62
Balance 31 December 2016	55,753,965	79,850
Treasury shares		
Balance 1 January 2015	1,613,409	41,235
Change in treasury shares associated with change in parent company (ii)		
– Derecognition of previous parent company	(1,613,409)	(41,235)
– Change to the new parent company	100,000	621
Balance 31 December 2015	100,000	621
Treasury shares used in relation to share incentive plan (iii b)	(87,156)	(541)
Purchase of treasury shares	316	10
Balance 31 December 2016	13,160	90

(i) In June 2015, Oriflame Holding AG became the new parent company of the Group after the move of the domicile from Luxembourg to Switzerland through a share-for-share transaction.

(ii) Following the change in the parent company in June 2015 the treasury shares of the former parent company have been derecognised to retained earnings and 100,000 treasury shares with a nominal value of CHF 1.50 coming from the new parent company were recognised.

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

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

Share premium

The share premium represents the difference between the nominal value and the issued value of the shares. The dividend declared during 2016 was recognised from the share premium. In 2015, the balance has been impacted by the change in the parent company as described above in the share capital section.

NOTE 19 • RESERVES

(i) Legal reserve

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

(ii) Translation reserve

Included in the translation reserve are the following movements in 2016:

- (a) Exchange gain of € 10.4 million (€20.2 million loss in 2015) arising on long term inter-company debt of an investment nature, and;
- (b) A foreign exchange gain of € 1.9 million (€3.6 million loss in 2015) arising from the translation of financial statements of foreign subsidiaries.

(iii) Hedging reserve

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

(iv) Dividends

In May 2016, the AGM of the company approved a dividend of €0.40 per share, as proposed by the Board of Directors, i.e. €22.3 million in total. A first instalment of € 0.20 per share was paid in November 2016. The remaining part of € 0.20 per share was paid in February 2017 and is recognised as a dividend payable in the consolidated statement of financial position as at 31 December 2016.

The total amount of dividend consists of the total of the shares issued less the acquired treasury shares, which are not eligible for a dividend, at the date of the dividend.

(v) Other reserve

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

NOTE 20 • INTEREST-BEARING LOANS

€'000	2016	2015
Non-current liabilities		
Loans	199,713	343,437
	199,713	343,437
Current liabilities		
Short-term loans	66,732	2,959
Bank overdrafts	104	–
Finance lease short-term liabilities	–	4
	66,836	2,963

On 27 April 2015, the Group signed a €110 million five-year revolving, multi-currency, committed, Credit Facility, replacing the €330 million five-year facility signed on 23 May 2011. The agreement provides that utilizations may be in Euros or other freely convertible currencies, as agreed. The interest payable is calculated at the relevant inter-bank rate plus the applicable margin.

In July 2011, the Group successfully completed the issuance of \$195 million and €25 million private placement notes. The Note Purchase Agreement, which was signed on the 13 July 2011, identifies four series of fixed-rates' Senior Notes with different maturities. Interest is paid semi-annually and it is in the range between 4.70 percent and 5.70 percent per annum.

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

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

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

In April 2010, the Group successfully entered into a \$165 million loan in the U.S. Private Placement market. The Note Purchase Agreement, which was signed the 20 April 2010, identifies three series of fixed-rates' Senior Notes with different maturities: Interest is paid semi-annually and it is in the range between 5.00 percent and 6.50 percent per annum.

On 20 April 2015 the first tranche in the loan in the U.S. private placement market matured and the Group repaid the aggregated principal amount of USD 25 million together with the interest accrued to the international investors.

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

Both the Credit Facility and the Note Purchase Agreements contain a number of operating covenants, including restrictions on subsidiary borrowings, restrictions on lending and giving guarantees for financial indebtedness, and restrictions on the disposal of material assets. It also contains a number of financial covenants which include required ratios of consolidated net debt to consolidated EBITDA of the Group, consolidated EBITDA to consolidated finance costs and net worth. The Group was in compliance with these covenants as of 31 December 2016 and 31 December 2015.

Note 20 continued

Terms and debt repayment schedule

The terms and conditions of outstanding loans were as follows:

€'000	Currency	Interest rate	Year of maturity	31 December 2016		31 December 2015	
				Face value	Carrying amount*	Face value	Carrying amount*
Revolving bank facility	EUR	Euribor + margin	2020	–	(1,113)	–	(1,243)
Private placement loan	USD	Fixed rate USD coupon	2017–2020	102,941	136,571	102,941	134,919
Private placement loan	USD/EUR	Fixed rate EUR and USD coupon	2018–2023	95,624	130,987	161,535	206,802
Finance lease liabilities	PLN/RON	between 6% and 12%		–	–	4	4
Other loans	INR/CLP	between 5% and 13%	2016–2017	–	–	5,918	5,918
Bank overdrafts	TRY	0% / 16%	–	104	104	–	–
Total interest-bearing liabilities				198,669	266,549	270,398	346,400

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

At 31 December 2016, the Group had total banking facilities available of €415.8 million (€480.9 million) of which € 264.7 million (€350.3 million) have been utilized as bank short- and long-term loans as well as guarantees.

NOTE 21 • EQUITY COMPENSATION PLANS

At year-end 2016, Oriflame has two active Share Incentive and Retention Plans (SIP), as further described below, under which annual Offers have been adopted by the Board of Directors.

On 19 May 2011, the Oriflame EGM approved a share incentive plan for the years 2011–2014, according to which participants will be offered to purchase at fair market terms shares up to €2.0 million per annum. The amount of investment shares offered will be determined by the Board of Directors so that the potential dilution under the lifetime of the plan shall amount to less than 4 percent of the share capital of the Group. Achievement shares granted range from 0 to 8 shares per investment share depending on whether the Group achieves certain growth rate targets in operating profit over the vesting period.

Technical amendments, effective as of the 2013 investments, have been approved on 21 May 2013 by the Oriflame AGM, to the effect that participants in the plan may, as an alternative to purchasing newly issued shares as investment shares under the plan, elect to designate existing shares/SDRs as investment shares.

During 2014 the Board of Directors exercised its right to amend the plan and resolved to introduce two additional qualification years on the investment shares should the operating profit targets for achievement shares not have been met during the ordinary three year period. This extended qualification period was applied on the 2014 investments.

On 13 August 2015, the 2015–2017 Share Incentive and Retention Plan (SIP) was adopted by the Board, according to which participants will be offered to purchase or designate shares corresponding to a fair market value of up to €2 million per annum as investment shares. The allotment of free Achievement Shares to each Participant will be between 0 and 8 for each Investment Share, depending on the development of the year end growth targets of the Oriflame Group as from the start of the investment period until the 3rd, 4th and 5th anniversary (as applicable). The amount of investment shares offered will be determined by the Board of Directors so that the potential dilution under the lifetime of the plan shall amount to less than 3 percent of the share capital of the Group.

The fair value of the achievement shares granted is calculated by reference to the value of the investment shares, which is the market price at the time of investing, less forecasted dividends that are discounted at Euribor rate. In 2016, the total equity compensation cost recorded in Administrative Expenses is €4.8 million (€3.5 million).

The number of investment shares is as follows:

	2016			2015			2014			2013
Shares schemes	Extension period 2	Extension period 1	Initial vesting period	Extension period 2	Extension period 1	Initial vesting period	Extension period 2	Extension period 1	Initial vesting period	
Granted at the beginning of the scheme	70,763			70,500			71,000			71,000
Forfeited during 2013	—	—	—	—	—	—	—	—	—	(965)
Forfeited during 2014	—	—	—	—	—	—	—	—	—	(184)
Forfeited during 2015	—	—	—	(4,823)	(4,823)	—	(11,853)	(11,853)	(683)	(3,321)
Outstanding at the beginning of the year	—	—	—	65,677	65,677	70,500	59,147	59,147	70,317	66,530
Forfeited during 2016	(184)	(184)	(184)	—	—	—	(827)	(827)	(827)	(251)
Expired during 2016	—	—	—	—	—	—	—	—	—	—
Exercised during 2016	—	—	—	—	—	—	—	—	—	(66,279)
Outstanding at the end of the year for the relevant vesting period	70,579	70,579	70,579	65,677	65,677	70,500	58,320	58,320	69,490	—
Fair Value at Grant Date	13.58	14.58	15.43	8.76	10.13	11.46	13.15	14.32	15.39	18.99
Share Investment Price at Grant Date		16.98			14.78			18.38		25.56

NOTE 22 • RELATED PARTIES

Identity of related parties

The group has a related party relationship with its subsidiaries (see note 23), its directors and executive officers, and a number of companies related through common key management personnel or ownership interests.

Transactions with key management personnel

The Directors and key management personnel of the company held beneficial interests in the shares of the company at 31 December 2016 as follows:

Number of shares	2016*	2015*
R. af Jochnick and family**	5,433,283	5,142,735
J. af Jochnick and family	4,362,898	4,367,190
Alexander af Jochnick	520,000	418,884
Maguns Brännström	321,196	303,000
Jesper Martinsson	280,000	240,000
Gabriel Bennet	30,000	23,500
Christian Salamon	14,500	14,500
Anders Dahlvig	13,650	13,650
Lilian Fossum***	NA	1,000
Helle Kruse Nielsen****	NA	1,000
Anna Malmhake	—	—
Mona Abbasi****	—	NA
Karen Tobiasen****	—	NA

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

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

*** Resigned in May 2016.

**** Elected as new Member of the Board in May 2016.

The major shareholders, the af Jochnick family and the Stichting af Jochnick Foundation, jointly exercise control over 16,123,182 shares which represents 28.9 percent of the outstanding total shares as at 31 December 2016.

The key management personnel compensation (in €'000) is as follows:

For the year ended 31 December 2016, 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 €363 (€319). The chairman received €93 (€81).

For the year ended 31 December 2016, the Chief Executive Officer is entitled to receive total compensation of €3,062 (€1,782), of which €840 (€803) was salary, €511 (€54) bonus, €952 (€560) share incentive plan, €507 (€185) pension contributions under the pension scheme for senior management, and €252 (€180) other benefits and allowances, including social security.

For the year ended 31 December 2016 the members of the Corporate Committee excluding the Chief Executive Officer, which consists of the Chief Operating Officer and the Chief Financial Officer, are entitled to receive €4,337 (€3,165), of which €1,139 (€1,254) was salaries, €581 (€55) bonus, €848 (€621) share incentive plan, €506 (€257) pension contributions under the pension scheme for senior management and €1,263 (€978) of other benefits and allowances, including social security.

Other related party transactions

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

€'000	Transaction value Year ended 31 December		Balance outstanding As at 31 December	
	2016	2015	2016	2015
Expenses and employee costs incurred on behalf of and recharged to Medcover S.A.	(10)	(12)	–	–
Services provided by Credus Management AB	134	27	26	–
Medcover health care services	341	339	3	2

All transactions with related parties are done on arm's length basis. During the year ending 31 December 2016 and 2015, no provision for doubtful debts and expense in respect of bad or doubtful debts due from related parties were recognised.

Credus Management AB, a Swedish company wholly owned by Robert af Jochnick, member of the company's Board of Directors, from time to time provide Oriflame with services outside the board director assignments of Robert af Jochnick and Alexander af Jochnick.

Administrative and employee costs are incurred on behalf of Medcover Holdings SA in connection with the shared office facilities in Waterloo, Brussels. These costs are recharged to Medcover. Jonas af Jochnick is a board member of, and a major shareholder in Medcover. Robert af Jochnick is a board member of Medcover. In addition, Medcover has entered into agreements with certain of the Group's subsidiaries in Poland, Romania, Hungary, the Czech Republic (Medcover is now called EUC Premium s.r.o in Czech Republic) and Estonia (Medcover is now called Qualitas Artikeskus As in Estonia) to provide private health care benefits to employees.

NOTE 23 • GROUP COMPANIES

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

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

Note 23 continued

Name	Country of incorporation	Share capital held, %
Oriflame Kosmetika d.o.o.	Serbia	100
Oriflame Slovakia sro	Slovak Republic	100
Oriflame Kozmetika d.o.o.	Slovenia	100
Oriflame Cosmetics S.A.	Spain	100
Oriflame Lanka Private Ltd	Sri Lanka	100
Oriflame Cosmetics AB**	Sweden	100
Oriflame Cosmetics AG	Switzerland	100
Oriflame Global Management AG	Switzerland	100
CETES Cosmetics AG***	Switzerland	100
Oriflame East Africa Tanzania Ltd	Tanzania	100
Oriflame Cosmetics (Thailand) Ltd	Thailand	100
Oriflame Management Asia Ltc	Thailand	100
Oriflame Kozmetik Urunleri Ticaret Ltd Sirketi	Turkey	100
Oriflame Tunisie S.A.R.L.	Tunisia	100
Oriflame East Africa Uganda Ltd	Uganda	100
SC "Oriflame Cosmetics" Ukraine	Ukraine	100
Limited Liability Company Oriflame Ukraine****	Ukraine	100
Oriflame Middle East DMCC	United Arab Emirates	100
Oriflame Vietnam Ltd.	Vietnam	100

In October 2016, Oriflame Management SA, Belgium, a former subsidiary of the Group, was liquidated.

* In September 2016, Oriflame Kosmetiek BV., Netherlands, a former subsidiary of the Group, was merged with Oriflame Holdings BV.

** In January 2016, Oriflame Services International AB, Sweden, a former subsidiary of the Group, was merged with Oriflame Cosmetics AB.

*** In August 2016, CETES Cosmetics AG, Switzerland, a new subsidiary, was registered.

**** In June 2016, Limited Liability Company Oriflame Ukraine, Ukraine, a new subsidiary, was registered.

NOTE 24 • PROVISIONS, COMMITMENTS AND CONTINGENT LIABILITIES

(a) Provisions

€'000	Tax litigations	Restructuring	Claims & other	Total
Balance at 1 January 2016	6,020	6,449	1,334	13,803
Provisions made during the year	561	–	1,455	2,016
Provisions used during the year	(6,166)	(4,261)	(411)	(10,838)
Provisions reversed during the year	(242)	(261)	(128)	(631)
Translations	782	(88)	184	878
Balance at 31 December 2016	955	1,839	2,434	5,228

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

The restructuring provision is related mainly to the new Oriflame organisation which was communicated in December 2015. The remaining amount will be mainly used during 2017.

(b) Contingent liabilities

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

The Group is exposed to contingent liabilities amounting to a maximum potential payment of €9.3 million (€8.2 million) representing income tax potential litigations of €6.2 million (€3.9 million) and other claims of €3.1 million (€4.3 million). Potential income tax litigations relate mainly to tax legislations in India.

(c) Minimum lease commitments

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

€'000	2016	2015
Within one year	21,632	19,363
Between one and three years	24,424	22,697
Between three and five years	12,821	7,815
Over five years	1,921	4,207
	60,798	54,082

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 2016 €28.9 million (€26.2 million) was recognised as an expense in the consolidated income statements in respect of operating leases.

(d) Bank guarantees

At 31 December 2016, the Group had bank guarantees in place of €5.1 million (€5.5 million).

NOTE 25 • PENSIONS

Defined contribution plans

During the year, companies operating defined contribution schemes recognised for these schemes €5.2 million pension costs (€6.2 million).

Defined benefit plans

The Group applies the requirements of IAS 19 Employee benefits relating to defined benefit plans since 2015, period during which the parent company of the Group was changed to Switzerland. The number of employees affiliated to Swiss pension plans has increased and the net defined benefit liability arising from Swiss pension plans has become material.

The Group's net obligation in respect of defined benefit plans was calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of plan assets. The calculation of the defined benefit obligations was performed by a qualified actuary using the projected unit credit method.

The Swiss pension plans are governed by the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG), which stipulates that pension plans are to be managed by independent,

legally autonomous units. The assets of the pension plans are held within a separate foundation and cannot revert to the employer. Pension plans are overseen by a regulator as well as by a state supervisory body.

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

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

Plan participants, their spouse and children are insured against the financial consequences of old age, disability and death. Their benefits are defined in pension plan rules compliant with the BVG, which is specifying the minimum benefits that are to be provided. Retirement benefits are based on the accumulated retirement capital which can either be drawn as a life-long annuity or as a lump sum payment. The annuity is calculated by multiplying the retirement capital with the currently applicable conversion rate. The accumulated retirement capital is made of the yearly contributions towards the old age risk by both employer and employee where applicable and the interest thereon until retirement. Minimum contributions and interest are defined by the BVG and the Swiss Parliament. In 2016 the minimum interest was 1.25 percent (1.75 percent). The actual contributions towards the old age risk as well as the benefits provided are based on the rules defined by the Board of Trustees of the foundation and are above the minimum requirements of the BVG.

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

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

The costs recognised in relation to the defined benefit plans during the year amounted to €1.1 million (€4.0 million from which €3.2 million results from the opening net defined benefit liability recognised in June 2015 as past service cost). The net defined benefit liability at year end amounts to €3.9 million (€3.7 million).

In 2017, 1.3 million (€1.1 million) in employer contributions are expected to be paid for the defined benefit plans.

Note 25 continued

(a) Movement in net defined benefit liability

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

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability	
€'000	2016	2015	2016	2015	2016	2015
Balance at 1 January	9,192	–	(5,540)	–	3,652	–
Included in income statement						
Service cost						
Current service cost	1,395	777	–	–	1,395	777
Past service cost*	(355)	7,984	–	(4,749)	(355)	3,235
Administrative expenses	–	–	55	20	55	20
Interest expense / (income)	98	45	(64)	(29)	34	16
Defined benefit cost/ (income) included in income statement	1,138	8,806	(9)	(4,758)	1,129	4,048
Included in Other Comprehensive Income (OCI)						
Remeasurements loss / (gain)						
Effect of changes						
in demographic assumptions	(670)	–	–	–	(670)	–
in financial assumptions	427	128	–	–	427	128
Effect of experience adjustments	647	196	–	–	647	196
Return on plan assets (excluding interest income)	–	–	(44)	(30)	(44)	(30)
Total remeasurements included in OCI	404	324	(44)	(30)	360	294
Other						
Exchange differences included in the income statement	109	(347)	(74)	207	35	(140)
Contributions						
Employers	–	–	(1,317)	(550)	(1,317)	(550)
Participants	42	18	(42)	(18)	–	–
Insurance premiums for risk benefits	(264)	(118)	264	118	–	–
Benefit payments from/to the plan	507	509	(507)	(509)	–	–
Total Other	394	62	(1,676)	(752)	(1,282)	(690)
Balance at 31 December	11,128	9,192	(7,269)	(5,540)	3,859	3,652

* The pension fund announced in November 2016 that it will lower its conversion rate for the non-mandatory old age savings in two steps in the years 2018 and 2019. The past service costs are calculated as the difference between the benefit obligation under the new plan and the benefit obligation under the previous plan. This resulted in a positive impact of €0.4 million in the income statement during 2016.

Note 25 continued

(b) Actuarial assumptions

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

	2016	2015
Discount rate, %	0.65	0.90
Interest rate for the projection of the savings capital, %	0.65	1.25
Future salary increases, %	1.50	1.50
Mortality probabilities	BVG 2015 generational tables	BVG 2010 generational tables

At 31 December 2016, the weighted-average duration of the defined benefit obligation was 21.4 years (21.4 years).

The expected benefit payments are as follows:

€'000	2016	2015
Less than one year	12	12
Between 1–5 years	198	240
Over 5 years	848	968

(c) Sensitivity analysis

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

€'0000	31 December 2016		31 December 2015	
	0.25% Increase	0.25% Decrease	0.25% Increase	0.25% Decrease
Discount rate	(574)	622	(426)	1,414
Future salary increases	244	(240)	1,125	(680)
Future pension increases	293	(277)	1,151	(663)

NOTE 26 • FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

26.1 Financial risk factors

Overview

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

- Market risk
- Credit risk
- Liquidity risk

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

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

I Market Risk

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

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

(a) Foreign currency risk

Translation exposure

Translation exposure arises due to the financial results and balance sheet positions of operating subsidiaries reported in their functional currency. Profits and losses and assets and liabilities in the various local currencies are translated into euro, the presentation currency. Countries having a functional currency other than euro, profits and losses are translated at average exchange rates and assets and liabilities are translated at closing

Note 26 continued

exchange rates. Fluctuations in exchange rates against the euro will give rise to differences. These differences are recorded as translation gains or losses in the shareholders' equity.

Transaction exposure

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

Strategic currency exposure

Strategic currency exposure arises in countries, which are not part of the European Monetary Union (EMU), or whose currencies are not pegged to the euro. When the exchange rate of the non-EMU currencies fluctuates against the euro, it affects the gross margin in those countries, as approximately 69,7 percent (69.1 percent) of the Group's products are sourced and produced within the EMU.

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

The Group hedges up to 100 percent of selected currency transaction exposures by entering into a variety of forward contracts in currencies in which subsidiaries of the Group transact business, to the extent that forward contracts are available in the market at a reasonable cost.

The Group has also decided to hedge the foreign exchange rate risk of selected forecasted foreign currency denominated intra-group sales, which present an exposure to variations in cash flows that could ultimately affect profit or loss.

As at 31 December 2016 there were a variety of forward exchange contracts outstanding for a nominal amount equivalent of € 129.0 million (€82.9 million) with maturities ranging from January to December 2017, to hedge selected currency transaction exposures and highly probable forecast transactions.

The Group uses a variety of forward exchange contracts with a nominal amount equivalent of €21.0 million (€14.4 million) to economically

hedge monetary assets and liabilities in foreign currencies, mainly intra-group. The derivatives are not designated as hedge accounting relationships and therefore the changes in fair value of the derivatives and the foreign exchange gains and losses relating to the monetary assets and liabilities are recognised in the consolidated income statement. As of 31 December 2016, the fair value of these contracts was €0.7 million loss (€0.2 million gain).

The Group claims cash flow hedge accounting for a variety of forward contracts at a nominal amount of € 108.0 million (€97.3 million) that hedge the cash flow variability due to foreign currency risk inherent in either future transaction that result in recognition of non-financial liability or highly probable forecast transactions, mainly intra-group. The effective portion of changes in the fair value of derivatives is recognised in other comprehensive income within equity and they are expected to impact the profit and loss within twelve months or less. The ineffective portion of the gain or loss is recognised immediately in the income statement. As of 31 December 2016, the fair value of these forward contracts was €1.6 million loss (€3.1 million gain).

In July 2011, the Group successfully entered into a €25 million and \$195 million loan in the U.S. private placement market (USD loan) and at the same time entered into a series of cross currency interest rate swaps, effectively converting USD denominated private placement loan proceeds and obligations (principal and semi-annual interest) into euro denominated flows.

The Group designated \$70 million loan maturing in July 2021 as financial liability at fair value through profit and loss. Both the \$70 million loan and the related cross currency interest rate swaps are measured at fair value in the consolidated statements of financial position. The Group accounts for the \$75 million loan maturing in July 2018 and \$50 million loan maturing in July 2023 as a financial liability at amortised costs. The Group applies cash flow hedge accounting for related cross currency interest rate swaps, where the effective portion of changes in the fair value of cross currency interest rate swaps is recognised in other comprehensive income within equity and they are expected to impact the profit and loss after more than a year. The ineffective portion of the gain or loss is recognised immediately in the consolidated income statements.

In February 2016 and in August 2016 the Group repurchased the total of \$58.4 million and €25 million of \$195 million and €25 million private placement notes issued in 13 July 2011. The principal amount outstanding after the repurchase of each series of Senior Notes: \$58.1 million due July 2018, \$52.7 million due July 2021 and \$25.8 million due July 2023. Subsequent to the repurchase of USD loan, USD and euro denominated flows

of the cross currency interest rate swaps were partially reduced to match the outstanding principal amount of USD loan. The Group continues to apply cash flow hedge accounting for cross currency interest rate swaps related to USD loan maturing in July 2018 and July 2023.

In April 2010, the Group successfully entered into a \$165 million loan in the U.S. private placement market (USD loan) and at the same time entered into a series of cross currency interest rate swaps, effectively converting USD denominated private placement loan proceeds and obligations (principal and semi-annual interest) into euro denominated

flows. The Group designated the USD loan as financial liability at fair value through profit and loss. Both the USD loan and related cross currency interest rate swaps are measured at fair value in the consolidated statements of financial position.

On 20 April 2015 the first tranche in the U.S. private placement market issued in 2010 matured and the Group repaid the aggregated principal amount of USD 25 million together with the interest accrued to the international investors.

Exposure to currency risk

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

2016	RUB	IDR	INR	CNY	MXN	TRY
In €'000 equivalents						
Intra-group trading balances	36,007	4,701	1,885	(21,096)	6,430	4,505
Trade receivables/(payables)	(9)	—	—	—	—	—
Gross balance sheet exposure	35,998	4,701	1,885	(21,096)	6,430	4,505
Forward exchange rate contracts*	(12,302)	(1,411)	(349)	(1,366)	(4,363)	(2,615)
Net Exposure	23,696	3,290	1,536	(22,462)	2,067	1,890
2015	RUB	IDR	INR	CNY	MXN	TRY
In €'000 equivalents						
Intra-group trading balances	35,223	6,153	747	(9,593)	3,409	1,508
Trade receivables/(payables)	—	—	—	—	—	—
Gross balance sheet exposure	35,223	6,153	747	(9,593)	3,409	1,508
Forward exchange rate contracts*	(8,909)	(3,989)	(1,250)	9,752	(3,965)	(1,888)
Net Exposure	26,314	2,164	(503)	159	(556)	(380)

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

The following significant exchange rates applied during the year:

€	Average rate		Reporting date rate	
	2016	2015	2016	2015
RUB	74.54	67.67	63.81	79.70
IDR	14,723.90	14,852.43	14,173.43	15,039.99
INR	74.32	71.13	71.59	72.02
CNY	7.34	6.97	7.32	7.06
MXN	20.64	17.59	21.77	18.91
TRY	3.34	3.02	3.71	3.18

Sensitivity analysis

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

Effect on Group operating profit in %	2016	2015
RUB	(0.8)	(1.2)
IDR	(0.5)	(0.5)
INR	(0.4)	(0.6)
CNY	(0.5)	(0.4)
MXN	(0.3)	(0.4)
TRY	(0.3)	(0.4)

Effect on Group equity in € million	2016	2015
RUB	(0.2)	(0.1)
IDR	(0.4)	(0.1)
INR	(0.3)	(0.2)
CNY	(0.5)	(0.2)
MXN	(0.2)	(0.1)
TRY	(0.1)	(0.1)

(b) Interest rate risk

Hedge

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

In February 2016 and in August 2016 the Group repurchased the total of \$16.9 million of \$75 million and \$24.2 million of \$50 million private placement notes issued in July 2011. The principal amount outstanding after the repurchase of the related Senior Notes: \$58.1 million due in July 2018 and \$25.8 million due in July 2023. Subsequent to the repurchase of USD loan, USD and euro denominated flows of the cross currency interest rate swaps were partially reduced to match the outstanding principal amount of USD loan. The Group continues to apply cash flow hedge accounting for related cross currency interest rate swaps.

Not designated as hedge

In April 2010, when entering into the \$165 million USD loan and linked cross currency interest rate swaps, the Group effectively created a floating rate of 6-month Euribor obligation, receiving USD denominated semi-annual fixed swap rate and paying 6-month Euribor plus spread under the cross currency interest rate swaps, which the Group decided to hedge economically through series of interest rate cap agreements, totalling €121.3 million. The caps protect against a rise of 6-month Euribor over 4 percent and do not qualify for cash flow hedge accounting treatment under IAS 39, since the underlying hedged item is a derivative itself.

In July 2011, when entering into the \$70 million USD loan and linked cross currency interest rate swaps, the Group effectively created a floating rate of 3-month Euribor obligation, receiving USD denominated semi-annual fixed swap rate and paying 3-month Euribor plus spread under the cross currency interest rate swaps, which the Group decided to hedge economically through series of interest rate cap agreements, totalling €49.0 million. The caps protect against a rise of 3-month Euribor over 4.5 percent and do not qualify for cash flow hedge accounting treatment under IAS 39, since the underlying hedged item is a derivative itself.

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

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) other comprehensive income within equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2015.

Effects in €'000	Profit or (loss)		Other comprehensive income within equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
31 December 2016				
Variable rate interest-bearing liabilities	—	—	—	—
Interest rate caps	141	(41)	—	—
Cross currency interest rate swaps	(2,966)	3,012	687	(697)
Cash flow sensitivity (net)	(2,825)	2,971	687	(697)

31 December 2015

Variable rate interest-bearing liabilities	—	—	—	—
Interest rate caps	3,945	(816)	—	—
Cross currency interest rate swaps	215	(153)	4,363	(4,562)
Cash flow sensitivity (net)	4,160	(969)	4,363	(4,562)

II Credit risk

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

There is a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Management performs ongoing evaluations of the credit position of its consultants. Due to the nature of the direct sales industry, the Group does not have significant exposure to any individual customer (see note 16).

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

€'000	2016	2015
Trade and other receivables	60,978	54,959
Cash and cash equivalents	185,469	176,384
Interest rate caps for trading	23	771
Forward exchange rate contracts for trading	202	229
Forward exchange rate contracts for hedging	1,534	5,036
Cross currency interest rate swaps for trading	51,650	54,916
Cross currency interest rate swaps for hedging	18,929	24,146
	318,785	316,441

Note 26 continued

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 2016

€'000	Carrying amount	Contractual cash flows	Less than 1 year	1–3 years	3–5 years	More than 5 years
Non-derivative financial liabilities						
Loans	266,445	226,004*	57,644	49,460	95,294	23,606
Finance lease liabilities	—	—	—	—	—	—
Trade and other payables	79,548	79,548	79,548	—	—	—
Accrued expenses	92,337	92,337	92,337	—	—	—
Bank overdrafts	104	104	104	—	—	—
Derivative financial liabilities						
Cross currency interest rate swaps for trading	757	757	757	—	—	—
Forward exchange rate contracts for trading	2,130	2,130	2,130	—	—	—
Cross currency interest rate swaps for hedging (cash flow hedge)	684	684	684	—	—	—
Forward exchange rate contracts for hedging (cash flow hedge)	1,887	1,887	1,887	—	—	—
Total	443,892	403,451	235,091	49,460	95,294	23,606

31 December 2015

€'000	Carrying amount	Contractual cash flows	Less than 1 year	1–3 years	3–5 years	More than 5 years
Non-derivative financial liabilities						
Loans	346,396	315,169*	16,300	147,097	61,520	90,252
Finance lease liabilities	4	4	4	—	—	—
Trade and other payables	69,821	69,821	69,821	—	—	—
Accrued expenses	75,255	75,255	75,255	—	—	—
Bank overdrafts	—	—	—	—	—	—
Derivative financial liabilities						
Cross currency interest rate swaps for trading	817	817	817	—	—	—
Forward exchange rate contracts for trading	24	24	24	—	—	—
Cross currency interest rate swaps for hedging (cash flow hedge)	1,033	1,033	1,033	—	—	—
Forward exchange rate contracts for hedging (cash flow hedge)	1,912	1,912	1,912	—	—	—
Total	495,262	464,035	165,166	147,097	61,520	90,252

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

26.2 Capital management

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

The €110 million facility, and the USD loans dated April 20, 2010 and July 13, 2011, oblige the Group to maintain consolidated net worth of €120 million at each year end for the term of the agreement. The capital is defined as the consolidated net worth, which is equal to equity prepared in accordance with IFRS attributable to owners of the Group and amounts to €211.7m (€153.5m).

No changes have been made in the objectives, policies, or processes for managing capital during the year ended 31 December 2016.

26.3 Fair value estimation

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

€'000	31 December 2016		31 December 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets carried at fair value				
Cross currency interest rate swaps for trading	51,650	51,650	54,916	54,916
Interest rate caps for trading	23	23	771	771
Forward exchange rate contracts for trading	202	202	229	229
Option exchange rate contract for trading	—	—	—	—
<i>Total derivatives for trading</i>	<i>51,875</i>	<i>51,875</i>	<i>55,916</i>	<i>55,916</i>
Cross currency interest rate swaps for hedging	18,929	18,929	24,146	24,146
Forward exchange rate contracts for hedging	1,534	1,534	5,036	5,036
<i>Total derivatives for hedging</i>	<i>20,463</i>	<i>20,463</i>	<i>29,182</i>	<i>29,182</i>
<i>Total derivative financial assets</i>	<i>72,338</i>	<i>72,338</i>	<i>85,098</i>	<i>85,098</i>
Total financial assets carried at fair value	72,338	72,338	85,098	85,098
Financial liabilities carried at amortised cost				
Loans	(78,338)	(81,529)	(144,188)	(157,127)
Total financial liabilities carried at amortised cost	(78,338)	(81,529)	(144,188)	(157,127)

€'000	31 December 2016		31 December 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities carried at fair value				
USD loan	(188,107)	(188,107)	(202,208)	(202,208)
<i>Total designated as such upon initial recognition</i>	<i>(188,107)</i>	<i>(188,107)</i>	<i>(202,208)</i>	<i>(202,208)</i>
Cross currency interest rate swaps for trading	(757)	(757)	(817)	(817)
Forward exchange rate contracts for trading	(2,130)	(2,130)	(24)	(24)
<i>Total derivatives for trading</i>	<i>(2,887)</i>	<i>(2,887)</i>	<i>(841)</i>	<i>(841)</i>
Cross currency interest rate swaps for hedging	(684)	(684)	(1,033)	(1,033)
Forward exchange rate contracts for hedging	(1,887)	(1,887)	(1,911)	(1,911)
<i>Total derivatives for hedging</i>	<i>(2,571)</i>	<i>(2,571)</i>	<i>(2,944)</i>	<i>(2,944)</i>
<i>Total derivative financial liabilities</i>	<i>(5,458)</i>	<i>(5,458)</i>	<i>(3,785)</i>	<i>(3,785)</i>
Total financial liabilities carried at fair value	(193,565)	(193,565)	(205,993)	(205,993)

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

Derivative financial assets and liabilities

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

Financial liabilities at amortised costs

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

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

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

26.4 Fair value hierarchy

The table below shows fair value of financial assets and financial liabilities, including their levels in the fair value hierarchy, by valuation method. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

€'000	Level 1	Level 2	Level 3	Total
31 December 2016				
Financial assets and liabilities measured at fair value				
USD loans	–	(188,107)	–	(188,107)
Derivative financial assets	–	72,338	–	72,338
Derivative financial liabilities	–	5,458	–	5,458
	–	(121,227)	–	(121,227)

Financial assets and liabilities not measured at fair value

Loans	–	(81,529)	–	(81,529)
	–	(81,529)	–	(81,529)

€'000	Level 1	Level 2	Level 3	Total
31 December 2015				
Financial assets and liabilities measured at fair value				
USD loans	–	(202,208)	–	(202,208)
Derivative financial assets	–	85,098	–	85,098
Derivative financial liabilities	–	(3,785)	–	(3,785)
	–	(120,895)	–	(120,895)
Financial assets and liabilities not measured at fair value				
Loans	–	(157,127)	–	(157,127)
	–	(157,127)	–	(157,127)

26.5 Master netting or similar agreements

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

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

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

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

€'000	Gross and net amounts of financial instruments in the statement of financial position	Related financial instruments that are not offset	Net amount
31 December 2016			
Financial assets			
Cross currency interest rate swaps	70,579	(1,441)	69,138
Interest rate caps	23	–	23
Forward exchange contracts	1,736	(1,736)	–
	72,338	(3,177)	69,161
Financial liabilities			
Cross currency interest rate swaps	(1,441)	1,441	–
Forward exchange contracts	(4,017)	1,736	(2,281)
	(5,458)	3,177	(2,281)

31 December 2015			
Financial assets			
Cross currency interest rate swaps	79,062	(1,849)	77,213
Interest rate caps	771	–	771
Forward exchange contracts	5,265	(1,936)	3,329
	85,098	(3,785)	81,313

Financial liabilities			
Cross currency interest rate swaps	(1,849)	1,849	–
Forward exchange contracts	(1,936)	1,936	–
	(3,785)	3,785	–

NOTE 27 • ANALYSIS OF OPERATING PROFIT

There were no non-recurring items in 2016. In 2015, the non-recurring items of €9.6 million included in Administrative expenses are composed of restructuring costs – reorganisation – for €6.4 million and pensions past service costs for €3.2 million (refer to note 25).

Analysis of operating profit	2016	2015
Adjusted operating profit	119,184	100,186
Non-recurring items	–	(9,547)
Operating profit	119,184	90,639

NOTE 28 • ACCRUED EXPENSES

€'000	2016	2015
Performance Discount & Bonus	33,330	24,719
Staff related accruals	27,316	23,036
Other accruals	61,562	51,317
Total accrued expenses	122,208	99,072

NOTE 29 • EVENTS SUBSEQUENT TO THE REPORTING PERIOD

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

Statutory Auditor's Report

To the General Meeting of Oriflame Holding AG, Schaffhausen

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Oriflame Holding AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2016 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 64 to 105) give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion

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

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

Key Audit Matters

Finance transformation

Taxation

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Finance transformation

Key Audit Matter

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

The new partnership will cover the entire Group. Having started in September 2016, it is expected that the majority is implemented by the end of 2017.

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

Our response

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

We tested the key controls regarding design and implementation prior and after the transformation. For selected subsidiaries, we performed audit procedures on specific account balances, obtained highlight memorandums and held conference calls to discuss the findings.

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

Taxation

Key Audit Matter

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

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

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

Our response

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

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

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

We evaluated the appropriateness and completeness of the related disclosures.

For further information on taxation refer to the following:

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

Other Information in the Annual Report

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

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

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

Responsibility of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

KPMG AG



Hélène Béguin
Licensed Audit Expert
Auditor in Charge



Kathrin Schünke
Licensed Audit Expert

Zurich, 12 April 2017

Balance Sheet Oriflame Holding AG, Schaffhausen

Assets	Notes	31 December 2016		31 December 2015	
		EUR	CHF	EUR	CHF
Cash and cash equivalents		3,203,909	3,440,678	1,270,947	1,377,071
Other short-term receivables		5,696,126	6,117,070	7,913,889	8,574,699
due from third parties		3,536	3,797	495,915	537,324
due from group subsidiaries		5,692,590	6,113,273	7,417,974	8,037,375
Prepaid expenses		26,874	28,860	5,570	6,035
Total current assets		8,926,909	9,586,608	9,190,406	9,957,805
Financial assets		390,436,422	409,456,048	301,644,943	314,102,879
Investments	5	301,644,943	314,102,879	301,644,943	314,102,879
Loans to group companies	13	88,791,479	95,353,169	–	–
Property, plant and equipment		1,809	1,943	–	–
Goodwill	6	294,622,702	307,660,448	378,800,617	395,563,434
Total non-current assets		685,060,933	717,118,439	680,445,560	709,666,313
Total assets		693,987,842	726,705,047	689,635,966	719,624,118
Liabilities					
Other short-term liabilities		488,243	524,325	409,639	443,844
due to third parties		148,091	159,035	393,834	426,719
due to group subsidiaries		312,012	335,070	6,361	6,892
due to shareholder		28,140	30,220	9,444	10,233
Accrued expenses		707,828	760,136	356,009	385,736
Provision for outstanding dividends from capital contribution reserves		11,148,161	11,972,010	–	–
Total current liabilities		12,344,232	13,256,471	765,648	829,580
Share capital	7	79,849,590	83,630,948	79,788,125	83,562,845
Legal capital reserve		632,084,714	660,750,752	654,381,099	684,619,033
Capital contribution reserve	7, 8	623,924,246	651,619,033	654,381,099	684,619,033
Other reserve from capital contribution	7, 8	8,160,468	9,131,719	–	–
Accumulated losses		(30,200,919)	(30,826,084)	(44,677,634)	(48,637,340)
Loss brought forward		(44,677,634)	(47,709,763)	(81,528)	(98,960)
Profit / (loss) for the period		14,476,715	15,782,516	(44,596,106)	(47,610,803)
Currency conversion reserves		–	1,101,163	–	(927,577)
Treasury shares against capital contribution reserve	9	(89,775)	(107,040)	(621,272)	(750,000)
Shareholders' equity		681,643,610	713,448,576	688,870,318	718,794,538
Total liabilities and shareholders' equity		693,987,842	726,705,047	689,635,966	719,624,118

Income statement Oriflame Holding AG, Schaffhausen

Income statement for the period	Notes	01.01.2016 – 31.12.2016		01.01.2015 – 31.12.2015	
		EUR	CHF	EUR	CHF
Revenue from group company		2,304,933	2,512,838	842,067	898,991
Dividend income	13	100,000,000	109,020,000	–	–
Total operating income		102,304,933	111,532,838	842,067	898,991
Personnel expenses	14	(2,056,751)	(2,242,270)	(888,120)	(948,157)
Other operating expenses		(2,198,030)	(2,396,292)	(787,458)	(840,690)
Depreciation on tangible assets		(55)	(60)	–	–
Depreciation on intangible assets	6	(84,177,914)	(91,770,762)	(42,088,959)	(44,934,173)
Total operating expenses		(88,432,750)	(96,409,384)	(43,764,537)	(46,723,020)
Operating result		13,872,183	15,123,454	(42,922,470)	(45,824,029)
Financial expenses	15	(51,922)	(56,605)	(833,771)	(890,134)
Financial income	15	701,177	764,423	82,233	87,792
Non-operating expenses		(146,820)	(160,063)	10,800	11,530
Non-recurring expenses	16	(6,036)	(6,580)	(947,258)	(1,011,293)
Result before taxes		14,368,582	15,664,629	(44,610,466)	(47,626,134)
Direct taxes		108,133	117,887	14,360	15,331
Profit / (Loss) for the period		14,476,715	15,782,516	(44,596,106)	(47,610,803)

Notes Oriflame Holding AG, Schaffhausen

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

1 • STATUS AND PRINCIPAL ACTIVITY

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

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

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

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

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

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

3 • FOREIGN CURRENCY

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

Foreign currency	1 EUR
Income statement for 2016	1.0902
Balance sheet as at 31 December 2016	1.0739

4 • FULL-TIME EQUIVALENTS

The number of full-time equivalents did not exceed 10 on an annual average basis in 2016 nor in 2015.

5 • INVESTMENTS

As at 31 December 2016 the company holds directly 3,031,000 shares in Oriflame Cosmetics Global S.A., Luxembourg and 100,000 shares in SARL Natural Swedish Cosmetics, Algeria representing 100% of the share capital and 100% of the voting rights. The investments are valued at acquisition cost or if the value is lower, at value in use.

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

As at 31 December 2016 the company holds indirectly 20 percent or more of the issued share capital of the following companies:

Company	Country of incorporation	Capital in LC '000	Currency	Share capital held in %	Voting rights held in %
Oriflame Cosmetics LLC	Armenia	50	AMD	100	100
Oriflame LLC	Azerbaijan	206	AZM	100	100
Oriflame Cosmetics Foreign LLC	Belarus	1,137	BYN	100	100
Oriflame Kozmetika BH. D.o.o. Sarajevo	Bosnia	2	BAM	100	100
Oriflame Bulgaria EOOD	Bulgaria	3	BGN	100	100
Oriflame de Chile SA	Chile	2,638	CLP	100	100
Oriflame Cosmetics (China) Co. Ltd	China	338,753	CNY	100	100
Oriflame Health Food (Beijing) Co Ltd	China	12,000	CNY	100	100
Oriflame Services Hong Kong Ltd	China	100	HKD	100	100
Oriflame de Colombia SA	Colombia	5,864	COL	100	100
Oriflame Kozmetika Croatia doo.	Croatia	15,020	KUN	100	100
Oriflame Cyprus Limited	Cyprus	1	EUR	100	100
Tyndelca Trading Limited	Cyprus	2	EUR	100	100
Oriflame Czech Republic sro	Czech Republic	2,020	CZK	100	100
Oriflame Software sro	Czech Republic	6,200	CZK	100	100
Oriflame International ApS	Denmark	3,300	DKK	100	100
Oriflame del Ecuador SA	Ecuador	5,047	USD	100	100
Oriflame Egypt Ltd	Egypt	50	ELE	100	100
Oriflame Estonia OU	Estonia	3	EUR	100	100
Oriflame Oy	Finland	505	EUR	100	100
Oriflame Georgia LLC	Georgia	8,767	GEL	100	100
Special Trading Company Oriflame Caucasus	Georgia	62	GEL	100	100
Oriflame Kosmetik Vertriebs GmbH	Germany	10,911	EUR	100	100
Oriflame Hellas Sole Shareholder Ltd	Greece	4,741	EUR	100	100

Company	Country of incorporation	Capital in LC '000	Currency	Share capital held in %	Voting rights held in %
Oriflame Hungary Kozmetika Kft	Hungary	2,824,074	HUF	100	100
Oriflame India Pvt. Ltd.	India	798,962	INR	100	100
PT Oriflame Cosmetics Indonesia	Indonesia	2,342,500	IDR	100	100
PT Orindo Alam Ayu	Indonesia	40,054,539	IDR	100	100
Oriflame Research & Development Ltd.	Ireland	2,331	EUR	100	100
Oriflame LLP	Kazakhstan	3,458,736	TEN	100	100
Oriflame Cosmetics LLC	Kosovo	3	EUR	100	100
Oriflame East Africa Ltd	Kenya	100	KES	100	100
Oriflame Cosmetics LLC	Kyrgyzstan	1,080	KGS	100	100
Oriflame Latvija S.I.A	Latvia	2,258	EUR	100	100
Oriflame Kosmetika UAB.	Lithuania	253	EUR	100	100
Oriflame Foundation	Luxembourg	—	EUR	100	100
Oriflame Kozmetika dooel	Macedonia	8,308	DIN	100	100
Oriflame Investments Ltd	Mauritius	—	EUR	100	100
Myanmar Oriflame Company Ltd	Myanmar	69,250	MMK	100	100
Oriflame (Mexico) SA de CV	Mexico	13,613	MXN	100	100
Servicios Oriflame, SA de CV	Mexico	50	MXN	100	100
Oriflame International SRL	Moldova	8	MDL	100	100
Oriflame Mongolia LLC	Mongolia	151,526	TUG	100	100
Oriflame Kosmetika MN doo.	Montenegro	1	EUR	100	100
Oriflame Maroc SARL	Morocco	84,118	MAD	100	100
Oriflame Holdings BV. ¹⁾	Netherlands	67,627	EUR	100	100
Oriflame Nigeria Cosmetics Limited	Nigeria	48,000	NGN	100	100
Oriflame Norge A/S	Norway	1,696	NOK	100	100
Oriflame Cosmetics Pakistan (PVT) LTD	Pakistan	49,855	PKR	100	100
Oriflame Peru S.A.	Peru	10,581	PEN	100	100
Oriflame Poland SP z o.o.	Poland	946	PZL	100	100
Oriflame Products Poland SP z o.o.	Poland	39,810	PZL	100	100
Oriflame Property Investments SP z o.o.	Poland	5,700	PZL	100	100
Oriflame Cosméticos Ltda	Portugal	7	EUR	100	100
SC Cosmetics Oriflame Romania srl.	Romania	17,280	RON	100	100
Oriflame Cosmetics LLC	Russia	4,648,746	RUR	100	100
Oriflame Products LLC	Russia	3,233,321	RUR	100	100
Oriflame Kosmetika d.o.o.	Serbia	371,124	RSD	100	100
Oriflame Slovakia sro	Slovak Republic	100	EUR	100	100
Oriflame Kozmetika d.o.o.	Slovenia	11	EUR	100	100
Oriflame Cosméticos S.A.	Spain	160	EUR	100	100

Note 5 continued

Company	Country of incorporation	Capital in LC '000	Currency	Share capital held in %	Voting rights held in %
Oriflame Lanka Private Ltd	Sri Lanka	555	SLR	100	100
Oriflame Cosmetics AB ²⁾	Sweden	20,500	SEK	100	100
Oriflame Cosmetics AG	Switzerland	100	CHF	100	100
Oriflame Global Management AG	Switzerland	100	CHF	100	100
CETES Cosmetics AG ³⁾	Switzerland	100	CHF	100	100
Oriflame East Africa Tanzania Ltd	Tanzania	1,000	TZS	100	100
Oriflame Cosmetics (Thailand) Ltd	Thailand	549,371	THB	100	100
Oriflame Management Asia Ltc	Thailand	20,000	THB	100	100
Oriflame Kozmetik Urunleri Ticaret Ltd Sirketi	Turkey	16,833	TRY	100	100
Oriflame Tunisie S.A.R.L.	Tunisia	200	TND	100	100
Oriflame East Africa Uganda Ltd	Uganda	5,000	UGX	100	100
DP "Oriflame Cosmetics" Ukraine	Ukraine	605,835	UAH	100	100
Limited Liability Company Oriflame Ukraine ⁴⁾	Ukraine	112,931	UAH	100	100
Oriflame Middle East DMCC	United Arab Emirates	50	AED	100	100
Oriflame Vietnam Ltd.	Vietnam	2,050	VND	100	100

In October 2016, Oriflame Management SA, Belgium, a former subsidiary of the Group, was liquidated.

1) In September 2016, Oriflame Kosmetiek BV., Netherlands, a former subsidiary of the Group, was merged with Oriflame Holdings BV.

2) In January 2016, Oriflame Services International AB, Sweden, a former subsidiary of the Group, was merged with Oriflame Cosmetics AB.

3) In August 2016, CETES Cosmetics AG, Switzerland, a new subsidiary, was registered.

4) In June 2016, Limited Liability Company Oriflame Ukraine, Ukraine, a new subsidiary, was registered.

6 • GOODWILL

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

Gross value (in €)	2016	2015
Balance as at 1.1.	378,800,617	–
Addition	–	420,889,576
Disposal	–	–
Depreciation	(84,177,915)	(42,088,959)
Balance as at 31.12.	294,622,702	378,800,617

7 • SHARE CAPITAL AND AUTHORIZED CAPITAL

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

On 17 May 2016, the shareholders' meeting of the company has resolved to increase the conditional share capital by CHF 68,103 to CHF 83,630,948 by issuing 45,402 fully paid-in registered shares with a nominal value of CHF 1.50 each at an issue price of CHF 1.50 each.

During the year those 45,402 shares were delivered as part of the Oriflame Group share incentive plan.

The Board of Directors shall be authorized (including in case of a public offer for shares of the company) to increase the share capital in an amount not to exceed CHF 13,174,326 through the issuance of up to 8,782,884 fully paid-in registered shares with a nominal value of CHF 1.50 per share by not later than 19 June 2017. Increases in partial amounts shall be permitted.

Statement of changes in equity for the period ended 31 December 2016 (in CHF)

Equity statement	Share capital	Capital contribution reserve	Other reserve from capital contribution	Treasury shares	Currency conversion reserves	Accumulated losses	Total shareholders' equity
Balance as at 1.1.	83,562,845	684,619,033	—	(750,000)	(927,577)	(47,709,763)	718,794,538
Profit for the period	—	—	—	—	—	15,782,515	15,782,515
Capital increase	68,103	—	—	—	—	—	68,103
Release to other reserves	—	(33,000,000)	33,000,000	—	—	—	—
Dividend	—	—	(23,868,281)	—	—	—	(23,868,281)
Movement in treasury shares	—	—	—	642,960	—	—	642,960
Currency conversion reserves	—	—	—	—	2,028,740	—	2,028,740
Balance as at 31.12.	83,630,948	651,619,033	9,131,719	(107,040)	1,101,163	(31,927,248)	713,448,575

8 • LEGAL CAPITAL RESERVE

The legal capital reserve is converted into EURO using the historical foreign exchange rate. The legal capital reserve stated in CHF 660,750,752 is the relevant one regarding the tax free amount relating to the issuance of dividends.

9 • TREASURY SHARES

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

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

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

Number of registered treasury shares	2016	2015
Inventory as at 1.1.	100,000	—
Addition	316	100,000
Sales	—	—
Release related to share incentive plan	(87,156)	—
Inventory as at 31.12.	13,160	100,000

10 • MAJOR SHAREHOLDERS

The following shareholders owned at least 5% of share capital as at 31 December 2016.

Oriflame Holding AG became the ultimate holding company of Oriflame Group as from 19 June 2015.

Name	2016		2015	
	Number of shares	%	Number of shares	%
Af Jochnick BV	6,327,001	11.3	6,327,001	11.4
Robert and Alexander af Jochnick and family	5,433,283	9.7	5,142,735	9.2
Fourth Swedish National Pension Fund (AP4)	4,820,483	8.6	5,267,486	9.5
Jonas af Jochnick and family	4,362,898	7.8	4,367,190	7.8
Investment AB Öresund*	1,900,000	3.4	2,802,990	5.0

* This investment is shown as it was above the threshold of 5% in 2015

11 • EQUITY OWNED BY EXECUTIVE MANAGEMENT AND THE BOARD OF DIRECTORS INCLUDING ANY RELATED PARTIES AS AT 31 DECEMBER 2016

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

Board of Directors	2016		2015	
	Number of shares	%	Number of shares	%
Jonas af Jochnick and family	4,362,898	7.8	4,367,190	7.8
Robert af Jochnick and family	4,913,283	8.8	4,723,851	8.4
Alexander af Jochnick and family, Chairman	520,000	0.9	418,884	0.8

The significant shareholdings by executive management are listed below.

Executive management	2016		2015	
	Number of shares	%	Number of shares	%
Magnus Brännström, CEO	321,196	0.6	303,000	0.5
Gabriel Bennet, CFO	30,000	0.1	23,500	0.0
Jesper Martinsson, Senior Vice President and Head of Commercial Division and Deputy CEO	280,000	0.5	240,000	0.4

12 • SHARES GRANTED TO MEMBERS OF THE BOARD AND EMPLOYEES

During 2016, annual investment offers under OHAG's Share Incentive and Retention Plan (SIP) has been adopted by the board of directors.

The following information relates to the allocation of investment rights in 2016 (valued at fair value at grant date of EUR 15.22). It details the maximum amount of achievement shares that can be awarded to OHAG employees in relation to the 2016 investments under the SIP.

	Maximum no of shares	Maximum value
Allocated to members of the board	—	—
Allocated to OHAG employees	144,000	2,190,974
Total	144,000	2,190,974

13 • DIVIDEND INCOME

A dividend of EUR 100,000,000 has been distributed by Oriflame Cosmetics Global S.A. in 2016.

In return a loan has been granted to Oriflame Cosmetics Global S.A. which has already been partially repaid in 2016.

14 • PERSONNEL EXPENSES

The increase in personnel expenses is related to higher salary and pension expenses as a result of an increase in headcount. Furthermore, the prior year personnel expenses represent only the six month period starting from July 2015 onwards.

15 • FINANCIAL EXPENSES AND INCOMES

In 2015 the financial expenses were mostly driven by the broker fees related to the cross-merger with Oriflame Cosmetics SA while 2016 financial income were mainly driven by interest on loan to group companies.

16 • NON-RECURRING EXPENSES

The non-recurring expenses in 2016 are significantly lower than in 2015 due to additional costs incurred in the prior year resulting from the cross-merger with Oriflame Cosmetics SA. The domicile of the Oriflame Group was changed from Luxembourg to Switzerland in 2015. The shares of the company, new top holding of the Oriflame Group, were listed on Nasdaq Stockholm Stock Exchange on 23 June 2015. In 2015, the related non-recurring expenses are mainly composed of professional and legal fees.

Proposed Appropriation Oriflame Holding AG, Schaffhausen

Proposed Appropriation of Available Earnings 2016	EUR	CHF
Accumulated loss brought forward	(44,677,634)	(47,709,763)
Profit for the period	14,476,715	15,782,516
Currency conversion reserves	–	1,101,163
	(30,200,919)	(30,826,084)

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

Proposed dividend distribution out of capital contribution reserve 2016	Capital contribution reserve		Other reserve from capital contribution	
	EUR	CHF	EUR	CHF
The Board of Directors proposes to the General Meeting of Shareholders the following dividend distribution out of capital contribution reserve				
Balance as of 31 December 2016	623,924,246	651,619,033	8,160,468	9,131,719
Proposed release of capital contribution reserve to other reserve from capital contribution	(104,525,561)	(112,500,000)	104,525,561	112,500,000
Balance to be carried forward	519,398,685	539,119,033	112,686,029	121,631,719

The Board of Directors proposes that (i) CHF 112,250,000 of the company's "capital contribution reserve" (the Capital Contribution Reserve) be released and allocated to "other reserve from capital contribution" (the Dividend Reserve), (ii) a dividend in the amount of EUR 1.50 per outstanding share of the company be distributed out of, and limited at a maximum to the amount of, such Dividend Reserve and paid in four instalments as follows: EUR 0.75 to the shareholders of record on 15 May 2017, EUR 0.25 to the shareholders of record on 15 August 2017, EUR 0.25 to the shareholders of record on 15 November 2017 and EUR 0.25 to the shareholders of record on 15 February 2018, and (iii) any amount of the Dividend Reserve remaining after payment of the final instalment be automatically reallocated to the Capital Contribution Reserve. Dividend payments shall be made with respect to the outstanding share capital of the company on the record date for the applicable instalment, which amount will exclude any shares held by the company or any of its direct or indirect subsidiaries.

The Board of Directors is seeking shareholder approval of a distribution of a dividend out of the Capital Contribution Reserve in an aggregate amount of EUR 1.50 per outstanding share of the company, to be paid in four instalments as set out above. The payment is expected to occur within seven business days following each dividend record date. Unlike a dividend out of available earnings, a distribution out of the Capital Contribution Reserve in the form of a dividend is not subject to Swiss federal withholding tax.

The dividend payments will be made with respect to the outstanding shares of the company on the record date for each applicable instalment, however excluding any shares held by the company or any of its direct or indirect subsidiaries.

The Board of Directors is proposing that CHF 112,250,000 of the existing additional paid-in capital (which under Swiss law is referred to as "capital contribution reserve") be made available for purposes of the EUR 1.50 dividend per share by way of a release and allocation to the account "dividend reserve". Such allocation is required to be in CHF. Based on the number of shares outstanding as of 31 December 2016, the amount of the proposed aggregate dividend would be EUR 83,611,208. Accordingly, the Dividend Reserve of CHF 112,250,000 (EUR 104,525,561 based on the currency conversion rate as of 31 December 2016 of 1.0739 EUR/CHF) exceeds the aggregate dividend amount by about 25%.

The Board of Directors is proposing this excess amount in order to create a buffer to minimize any risk that any EUR-CHF exchange rate changes would reduce the EUR amount of the Dividend Reserve available for distribution.

In the unlikely event that, notwithstanding the allocation of this excess amount to the Dividend Reserve, the Dividend Reserve would for any reason be exceeded upon the occurrence of the payment date for a dividend instalment, the company would be required under the terms of the proposed shareholder resolution to adjust the relevant instalment downward on a pro rata basis so that the aggregate payments do not exceed the Dividend Reserve. In any event, the dividend payment will not exceed a total of EUR 1.50 per share. If the aggregate dividend payment is lower than the allocation to the Dividend Reserve, the relevant difference will be allocated back to the Capital Contribution Reserve.

Statutory Auditor's Report

To the General Meeting of Oriflame Holding AG, Schaffhausen

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Oriflame Holding AG, which comprise the balance sheet as at 31 December 2016, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements (pages 109 to 117) for the year ended 31 December 2016 comply with Swiss law and the company's articles of incorporation.

Basis for Opinion

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

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

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

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

Responsibility of the Board of Directors for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

KPMG AG



Hélène Béguin
Licensed Audit Expert
Auditor in Charge



Kathrin Schünke
Licensed Audit Expert

Zurich, 12 April 2017

Jonas af Jochnick

Anders Dahlvig

Magnus Brännström

Mona Abbasi





Anna Malmhake

Karen Tobiasen

Christian Salamon

Alexander af Jochnick

Robert af Jochnick

Board of **DIRECTORS**

Board of Directors



*Alexander
af Jochnick*

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

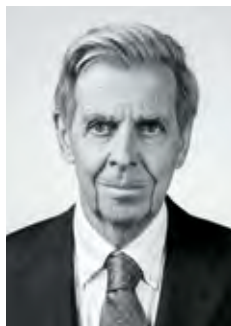
Member of the Remuneration Committee. Member of the Audit Committee. Member of the Nomination & Governance Committee.

BSc Stockholm School of Economics (Sweden).

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

Shareholding in Oriflame at 31 December 2016*: 520,000.

Not independent from the company nor its major shareholders.



*Robert
af Jochnick*

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

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

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

Shareholding in Oriflame at 31 December 2016*: 5,433,283**

Not independent from the company nor its major shareholders.



*Jonas
af Jochnick*

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

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

Board member of Medicover Holding S.A. and Celox Holding AB.

Shareholding in Oriflame at 31 December 2016*: 4,362,898.

Not independent from the company nor its major shareholders.



*Magnus
Brännström*

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

MSc Uppsala University (Sweden).

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

Shareholding in Oriflame at 31 December 2016*: 321,196.

Not independent from the company being CEO & President.



*Mona
Abbasi*

Board member as of 2016. Born in 1973.

University education from Umeå University, York University Toronto, Stockholm University, University College London. Executive education from Stockholm School of Economics.

No other board assignments.

Shareholding in Oriflame at 31 December 2016*: 0.

Independent from the company and its major shareholders.

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

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



*Anders
Dahlvig*

Board member as of 2010.
Born in 1957.

Member of the Nomination
& Governance Committee.

BSc Lund University
(Sweden), MA Economics
University of California (US).

Chairman of the Board of
Inter Ikea Holding BV. Board
member of Kingfisher plc,
Hennes & Mauritz AB, Axel
Johnsson AB, Resurs Bank AB
and Pret à Manger.

Shareholding in Oriflame at
31 December 2016*: 13,650.

Independent from the
company and its major
shareholders.



*Anna
Malmhake*

Board member as of 2014.
Born in 1966.

BSc Stockholm University
(Sweden).

Chairman and CEO of
The Absolut Company AB.

Shareholding in Oriflame at
31 December 2016*: 0.

Independent from the
company and its major
shareholders.



*Christian
Salamon*

Board member as of 1999.
Born in 1961.

Member of the Audit
Committee.

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

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

Shareholding in Oriflame at 31
December 2016*: 14,500.

Independent from the
company and its major
shareholders.



*Karen
Tobiasen*

Board member as of 2016.
Born in 1965.

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

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

No other board assignments.

Shareholding in Oriflame at
31 December 2016*: 0.

Independent from the
company and its major
shareholders.

Corporate Committee

Magnus Brännström

Chief Executive Officer (CEO) &
President.

Member of the Board of
Directors. Please refer to the
section "Board of Directors" for
further information on Magnus
Brännström.

Jesper Martinsson

Senior Vice President & Head of
Commercial Division, Deputy
CEO.

Born in 1966.

Board member of several
Oriflame companies.

Shareholding in Oriflame at
31 December 2016*: 280,000.

Gabriel Bennet

Chief Financial Officer (CFO).

Born in 1968.

Board member of Smedbo AB
and several Oriflame subsidiary
companies.

Shareholding in Oriflame at
31 December 2016*: 30,000.

2016 *Group Management*



Magnus Brännström

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



Jesper Martinsson

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



Gabriel Bennet

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



Michael Cervell

Senior Vice President
Global Direct Sales



Thomas Ekberg

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



Emma Hågemo

Vice President Group Strategy



Stefan Karlsson

Senior Vice President &
Head of Global Human
Resources



Johan Rosenberg

Senior Vice President &
Head of Global Business Areas
CIS and Latin America



Antonia Simon-Stenberg

Vice President Sustainability
& Quality Management

Financial CALENDAR 2017

- 2017 Annual General Meeting: 9 May 2017
- First-quarter 2017 report: 10 May 2017
- Second-quarter 2017 report: 17 August 2017
- Third-quarter 2017 report: 8 November 2017

Distribution principles

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

Oriflame Investor Relations contact

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Photos: Oriflame Cosmetics AG
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SWEDEN