

Corporate
governance
report
2017

ORIFLAME
— SWEDEN —



The Corporate governance report

INTRODUCTION

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

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

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

COMPLY OR EXPLAIN

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

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

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

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

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

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

GENERAL MEETINGS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

BOARD OF DIRECTORS

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

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

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

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

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

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

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

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

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

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

2017 Board and committee attendance

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

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

The auditors are invited to all regular audit committee meetings. At least once per year, the Board meets with the auditors without the CEO or other members of senior management being present. In advance of the 2017 year-end report, such a meeting took place on 14 February 2018.

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

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

For more information about the directors, please see the section Board of Directors on pages 13-14 of this report.

NOMINATION & GOVERNANCE COMMITTEE AND NOMINATION PROCESS

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

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

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

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

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

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

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

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

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

REMUNERATION COMMITTEE

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

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

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

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

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

Based on its reviews, the remuneration committee prepares proposals for resolutions, to be discussed and approved by the Board. The remuneration committee meets when necessary but at least twice per year. During 2017, the remuneration committee met four times.

AUDIT COMMITTEE

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

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

AUDITOR

The annual general meeting held on 9 May 2017 resolved to re-elect KPMG AG as independent auditor in respect of the statutory accounts and consolidated financial statements until the close of business of the next annual general meeting. KPMG AG, Zurich is the Swiss member firm of KPMG International. It is the third year that KPMG AG, Zurich has been engaged as Oriflame's independent auditor. The audit team is headed by H  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 14 February 2018 in order to present the audit findings. The KPMG audit team attended all regular audit committee meetings throughout the year. For fee details on non-audit services provided by KPMG, please see Note 6 of the Annual Report.

EXECUTIVE MANAGEMENT AND ORGANISATION

CEO AND CORPORATE COMMITTEE

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

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

GROUP MANAGEMENT

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

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

MANAGEMENT BUSINESS REVIEW

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

REGIONAL MANAGEMENT

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

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

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

GLOBAL SUPPORT AND SERVICE

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



Report on internal control, risks and monitoring

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

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

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

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

CONTROL ENVIRONMENT

The Board of Directors has the overall responsibility to ensure that the company's system for management and internal control is effective. The company's internal control system includes policies for acquisition, measurement and protection of assets, controlling the accuracy and reliability of reports, and ensuring compliance with internal guidelines. The policies and guidelines are the foundation for the internal control system. The Board has also ensured that the organisational structure is logical and transparent, with clear

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

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

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

RISK ASSESSMENT

As for controls related to the financial area, the major risk areas for material misstatements in the financial reporting were already in 2009 defined as follows: inventory, cash and banks, credit process, sales, performance discount and bonuses, and information technology system. These financial reporting risks were addressed during 2011, as well as two additionally identified financial risks: Accounts payables and risks related to the hedging function of the Treasury department. In 2012, the company has added legal compliance and fixed assets control processes to the management of risks related to corporate integrity. In 2013, the management of risks related to the hedging function of the Treasury department was further addressed by implementing a dedicated control process. In addition, all the relevant control processes already in force in the sales entities were extended to the manufacturing entities and to the main trading branch. In 2014, the company has implemented internal controls for Tax reporting & Consolidation, as well as expanded the scope and depth of Treasury-related controls.

INTERNAL CONTROLS

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

COMPLIANCE REPORTING MECHANISM - CODE OF CONDUCT

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

INFORMATION AND COMMUNICATION

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

MONITORING

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

PRINCIPAL RISKS AND UNCERTAINTIES

Strategic and operational risks

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

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

Sales of Oriflame products depend to a significant extent upon brand recognition and the goodwill associated with the company's trademarks and trade names, and its business could be harmed if its brand recognition is hurt or if management is unable to protect the trademarks and trade names. Oriflame is dependent on its manufacturing facilities and other Supply Chain assets in Poland, India, China and Russia as well as on third-party manufacturing facilities and logistic services. Any interruption in these facilities, or the loss of a third-party supplier, could negatively impact the business, financial condition and results of operations.

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

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

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

Financial risks

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

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

Oriflame is exposed to the risk of currency fluctuations in many countries where it operates and these fluctuations may have a material effect on the results of operations and financial condition.

The company experiences both currency translation and currency transaction exposure. Currency fluctuations may affect the comparability of Oriflame's results between financial periods.

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

Other risks

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

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

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

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

Board of Directors



**Alexander
af Jochnick**

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

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

BSc Stockholm School of Economics (Sweden).

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

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

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



**Robert
af Jochnick**

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

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

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

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

Not independent from the company nor its major shareholders.



**Jonas
af Jochnick**

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

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

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

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

Not independent from the company nor its major shareholders.



**Magnus
Brännström**

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

MSc Uppsala University (Sweden).

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

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

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

* 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.



Mona Abbasi

Board member as of 2016.
Born in 1973.

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

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

No other board assignments.

Shareholding in Oriflame at 31 December 2017*: 0.

Independent from the company and its major shareholders.



Anders Dahlgvig

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

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

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

Independent from the company and its major shareholders.



Anna Malmhake

Board member as of 2014.
Born in 1966.

BSc Stockholm University (Sweden).

Chairman and CEO of The Absolut Company AB.

Shareholding in Oriflame at 31 December 2017*: 0.

Independent from the company and its major shareholders.



Christian Salamon

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

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

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

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

Independent from the company and its major shareholders.



Karen Tobiasen

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

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

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

No other board assignments.

Shareholding in Oriflame at 31 December 2017*: 0.

Independent from the company and its major shareholders.