

July 28, 2008

LETTER TO SHAREHOLDERS 2008 FIRST HALF NET SALES

Dear Shareholders,

In the 2008 first half, our turnover went up 4.1% at constant exchange rates, to reach €485.8 million.

This respectable performance was achieved under challenging market conditions including:

- *A worldwide slowdown in consumer spending with the strong growth of emerging countries offset by sluggish performances of more mature markets;*
- *Stagnation in sales volumes in the cosmetics industry where only price increases permitted a marginal sales growth in value;*
- *Fiercer competition for fragrances exemplified by the multitude of new perfumes or flankers with increasingly short product lifecycles;*
- *Finally, the increase of the Euro, now also versus the sterling pound, that has continued to affect the European cosmetics industry and our reported sales growth by 5.9%, resulting in a currency effect on sales of more than €29 million.*

Our sales growth is based in part on a slightly positive trend in terms of volume combined with a strong marketing plan for skin care products that has once again met with success with our customers.

In consequence, the Beauty Division, under the flagship of Clarins brand, achieved sales growth of 7.6% at constant exchange rates. In the absence of major launches, Perfumes declined 3.8% on a high comparison basis from launches in the 2007 first half of our two main brands, Thierry Mugler and Azzaro.

On the basis of the limited visibility in the current unfavourable economic environment, we now anticipate full-year sales growth of 4% at constant exchange rates, at the lower end of the 4% to 6% guidance range announced at the beginning of the year.

Finally, our earnings will be impacted by particularly unfavourable foreign exchange trends in addition to the Group's commitment to pursue investments to support the development of its existing and new brands.

*Philip Shearer
Chairman of the Management Board*

1. NET SALES BY ACTIVITY

Net sales by Activity	2008 first half	2007 first half	Change at average exchange rates	Change at constant exchange rates
	In € million		In %	
Beauty	346.1	342.0	+1.2	+7.6
Perfumes	139.7	152.6	-8.4	-3.8
Consolidated total	485.8	494.6	-1.8	+4.1

1.1 Beauty

The Beauty Division expanded 7.6%⁽¹⁾, driven largely in excellent gains in skin care products. Make-up posted a satisfactory performance despite a high basis of comparison from the successful placement of the fully revamped range in the 2007 first half.

Several new initiatives contributed to robust growth of 10.6%⁽¹⁾ for **Skin care of the Clarins brand** that has in consequence continued to gain market shares.

Face care expanded 13.7%⁽¹⁾. The moisturizing line has been renewed with the introduction of a significant technological innovation to shield and protect the skin from outside aggressions. This line proposes a palette of products adapted to specific climactic conditions and environments, and has met with considerable popularity. This segment also benefited from the success of *Younger Longer Balm* and positive responses to *Tinted Creams* of the Super Restorative line.

Sales in the Body range remained steady (+1.1%)⁽¹⁾, benefiting from the *Body Shaping Supplement*, a specific formula for a slimmer and firmer silhouette that can be added to one's regular body products.

The Sun care range grew 9.1%⁽¹⁾. The reformulation of the line continued with the After Sun range, following the Sun Protection products for the Face and Body in prior years. The *Delicious Self Tanning Cream* with pure cocoa extracts was also well received.

ClarinsMen skin care line grew 8.2%⁽¹⁾, boosted by the launch of three new products (an *After Shave Soother*, an *After Shave Energizer* and a protective screen *UV Protection SPF 20 or 40* depending on the country) and continued success of the moisturizer line.

The contribution of new brands (**My Blend, Kibio and Azzaro Skin Force**) to the Beauty Division remained marginal at 0.4% of sales.

⁽¹⁾ At constant exchange rates

Make-up sales declined 9.6%⁽¹⁾ after expanding 25.0%⁽¹⁾ in the 2007 first-half fueled by the placement of the new line. And while significantly impacted in the first quarter by the high comparison basis (-21.2%⁽¹⁾), this activity advanced 6.6%⁽¹⁾ in the second quarter in response to the launch of the seasonal collection *Summer Fever* and ten new shades proposed for *Joli Rouge*, the Clarins new range of lipsticks.

1.2 Perfumes

Perfumes declined 3.8%⁽¹⁾, reflecting a high comparison basis from the launch of the *Azzaro Now* fragrance duo, *Eau de Star* and *Ice Men* in the 2007 first-half. In a highly competitive environment, the classic products of the Thierry Mugler and Azzaro brands continued to deliver good performances on a sell-out basis.

Thierry Mugler net sales declined 9.2%⁽¹⁾, affected by the high comparison base and disappointing performances by *Ice Men* and *Eau de Star*.

Angel that has continued to perform well will receive a further boost in the second half from its new muse, actress **Naomi Watts**, who will henceforth personify the brand. For this occasion, the Group has redesigned the packaging of its flagship line and launched ancillary products under the generic name "*Les Parfums Corps*".

Alien has gradually gained ground to become the brand's second pillar in women's fragrances with sales growth of 27.3%⁽¹⁾.

The classic men's fragrance A*Men has also performed well with gains of 13.0%⁽¹⁾.

Finally, the first half inaugurated the launch of Thierry Mugler Beauty, a new range combining a selected make-up line "*The Art of Metamorphosis*" associated with a collection of five fragrances "*Miroir, Miroir!*". The line has received excellent press coverage. Distribution of the make-up range will be limited to 30 doors while the five fragrances will be sold in 300 doors.

Azzaro Perfumes increased 3.6%⁽¹⁾ despite an unfavourable comparison basis resulting from the *Azzaro Now* fragrance duo.

Azzaro Pour Homme has continued to perform well while *Chrome* has benefited from extended rollout of *Chrome Legend* launched in the United States in the 2007 second half.

Distribution sales increased 11.8%⁽¹⁾ in the first half thanks to new initiatives undertaken by distributed brands.

⁽¹⁾ At constant exchange rates

2. NET SALES BY GEOGRAPHICAL AREA

Net sales by region	2008 first half	2007 first half	Change at average exchange rates	Change at constant exchange rates
	In €million		In %	
Europe	313.0	323.1	-3.1	-0.2
North America	70.1	72.3	-3.0	+8.1
Asia	57.0	55.3	+3.0	+15.0
Other Countries ⁽¹⁾	45.7	43.9	+4.1	+15.0
Consolidated total	485.8	494.6	-1.8	+4.1

2.1 Europe

Europe has entered a difficult period with key economic indicators pointing to unfavourable trends: an inflationary environment, rising interest rates, weak spending power, fluctuating real estate prices, the adverse impact of the strong euro on tourism. All these factors combined have created an unfavourable environment for the cosmetics industry resulting in weaker sell-out figures at points of sales.

In this context Group sales in Europe have remained flat (-0.2%⁽²⁾) and trends in the second quarter (though with Mother's Day and Father's Day) have shown no sign of improvement. In addition, Group sales were also adversely affected by the high comparison basis for Make-up and Perfumes. In contrast Clarins skin care products performed well in all markets benefiting chiefly from the reformulation of the Moisturizing line.

Excluding Switzerland and Eastern Europe, all countries experienced slowdowns.

2.2 North America

Sales in **North America grew 8.1%⁽²⁾**.

Group sales advanced significantly **in the United States (+11.2%⁽²⁾)** despite the country's economic slowdown. The successful launches of *Younger Longer Balm* and the new line of moisturizers combined with several promotional initiatives contributed to a strong upturn in Clarins sales despite difficulties in the make-up segment.

Mugler Parfums (in particular for *Alien*) also benefited from improved trends in the distribution sector and the opening of new doors.

⁽¹⁾ "Other countries" include chiefly Australia, the Middle East, Latin America and Africa

⁽²⁾ At constant exchange rates

For Azzaro Perfumes, the performance of *Chrome Legend* enabled the *Chrome* range to achieve 6% growth in retail sales (Source: NPD) and recover its position among the top ten selling men's fragrances.

2.3 Asia

Growth of 15.0%⁽¹⁾ in Asia reflects the excellent trends in most countries of the region with the exception of Taiwan that suffers from a consumer credit crunch and the aggressive promotional activities by competitors.

The Clarins brand benefited in all markets from the successful reformulation of the moisturizing line, three new products launched in the White Plus range and *Younger Longer Balm* that was supported by several advertising campaigns.

Sales in Japan declined marginally 1.0%⁽¹⁾, in response to a drop in department store traffic.

2.4 Other Countries

Sales in Other Countries remained robust with growth of 15.0%⁽¹⁾.

Group sales expanded 24.2%⁽¹⁾ in the **Middle East** as consumer spending has surged in response to the sharp increase in the price of oil. In addition, initiatives launched by the Group in Latin America continued to produce results leading to a further expansion of 13.4%⁽¹⁾.

4. 2008 SECOND HALF LAUNCHES AND OUTLOOK FOR EARNINGS

In the 2008 second-half, **new brands will be launched by the Perfumes Division:**

- ***The Essence by Porsche Design:*** the first men's fragrance license for the accessories brand, with its luminescent icy blue bottle and soothing fragrance conveying a feeling of well-being and serenity, will be launched in October 2008 in North America and Europe. The Porsche Design boutiques will supplement traditional distribution through perfumeries and department stores.
- The launch of the ***David Yurman eau de parfum*** in the United States, a women's fragrance with intertwining notes of rose and waterlily combined with bold exotic wood, musk and patchouli. This fragrance will be proposed at more than 200 doors of the most exclusive department stores before expanding its distribution in 2009.

Several launches for the existing brands are also scheduled:

- The extension of the Extra-Firming line will be pursued through the addition of three new products: ***Tightening Lift Botanical Serum, Lip & Contour Gentle Exfoliator*** and ***Lip & Contour Balm;***

⁽¹⁾ At constant exchange rates

- In the Body range, new formulations of *Satin Smooth Body Lotion* and *Renew-Plus Body Serum* will infuse the skin with radiance and softness;
- Particularly destined for the Asian market, the *Shaping Facial Lift Wrap* through its retracting effect will offer an ideal supplement to the daily care products *Shaping Facial Lift* and *Defining Eye Lift*;
- Also for Asia, Aqua Essences (*Aqua Essence Morning Energy* and *Aqua Essence Evening Infusion*) for achieving a fresh healthy glow in the morning and for soothing away the stresses of the day at evening;
- In Make-up, the Fall-Winter collection *Jazzy Colours* will provide a new line of feminine and sophisticated shades inspired from the precious and shimmering fabrics of the Roaring Twenties. A foundation version of the *Instant Smooth* perfecting touch that remains a success will be introduced;
- On the *Angel* range, *Parfums Corps* will represent an intentionally bold perfumery breakthrough. With the distinctive *Angel* DNA, this fragrance ancillary line makes it possible to apply the scent through an infinite variety of innovative textures as a gel, cream, lotion, or spray... In addition, its patented *Intense Diffusion System*® technology ensures a unique power and long-lasting effect for a fragrance ancillary line.

Despite this pipeline, **the Group anticipates sales growth in 2008 of 4%** at constant exchange rates, at the lower end of the initial 4%-6% guidance range. The uncertain economic outlook and the general sluggishness of the cosmetics market does not at present provide grounds for optimism.

Finally, **Group earnings should be adversely affected by:**

- **Unfavourable foreign exchange trends** particularly for the US dollar, and starting this year a declining value in the sterling pound;
- **The launch of four new brands:** Porsche Design, David Yurman, My blend and Kibio, notably in the second half;
- **The Group's determination to maintain the advertising and promotional efforts,** initiated beginning of 2007;
- **The discontinuation of the perfume license agreement for the Stella Cadente brand** that will result in an extraordinary inventory impairment charge.

Net Sales by Quarter				
Consolidated data	2008	2007	Changes at average exchange rates	Changes at constant exchange rates
	In € million		In %	
1 st quarter	240.1	240.4	-0.1	+4.9
2 nd quarter	245.7	254.2	-3.4	+3.2
1st half	485.8	494.6	-1.8	+4.1

Upcoming events

- **August 29 (after the close of trading):** 2008 first-half earnings



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Thierry Mugler

myBlend
BY OLVIER COURTIN

PORSCHE DESIGN
FRAGRANCES

DAVID YURMAN