

February 3, 2006

LETTER TO SHAREHOLDERS 2005 NET SALES

Dear Shareholders,

Mission accomplished for fiscal year 2005, Group sales went up more than 7% to come close to the €1 billion symbolic milestone.

In 2005 we had net sales of €998.2 million, a particularly satisfying performance in an environment where major European customers continued to draw down their inventories. These management measures will put the market on a healthier footing, improving our prospects for strong growth in the year ahead.

Several new developments further raised the visibility of our brands. These included notably the new Clarins advertising campaign, the launch of innovative skin care products and promising initiatives by the Perfumes Division.

In line with our strategy of geographical expansion, the Group's 20th distribution subsidiary was created in Russia, and several new beauty institutes and exclusive boutiques under the Clarins banner were opened in premium commercial locations in major cities such as New York, Hong Kong, Taipei or Toronto.

At the same time, new and redesigned products continued to be rolled out, reflecting our philosophy of responding to the evolving needs of our customers and focusing on scientific innovation. In the Beauty Division two products of the Extra Firming line and the Total Body Lift were reformulated for improved effectiveness.

The year ended however was devoted above all to Perfumes. Fragrances account for more than 50% of worldwide selective distribution sales. For this reason, we believe it is important to increase the share in our business mix of this activity that today accounts for 40.9% of Group sales. Two fragrances are now offered under the Clarins brand, par Amour and par Amour toujours, plus a fragrance developed under a license agreement with designer Stella Cadente. Silver Black, Azzaro's new masculine fragrance, was very well received in France and in the United States. Finally, Thierry Mugler Parfums posted strong growth through the extension of Angel's Garden of Stars range and the introduction of Alien that, 13 years after Angel, is already off to a bright future.

Efforts in 2006 will focus on Skin Care products. During this period several launches are programmed, sales growth in Europe is expected to resume now that retailers have reduced inventories, and our sales in America and Asian markets should remain robust. For these reasons we are optimistic that the prospects for this new year fully merit your confidence.

Christian Courtin-Clarins
Chairman of the Management Board

1. NET SALES BY ACTIVITY

Consolidated data	2005	2004 (IFRS)	Change ⁽¹⁾	Like-for-like Change ⁽²⁾
	In € million	In € million	In %	In %
Beauty	590.2	588.7	+0.3%	-0.1%
Perfumes	408.0	343.3	+18.8%	+18.6%
Total	998.2	932.0	+7.1%	+6.7%

1.1 Beauty

Beauty Division sales remained virtually unchanged at €590.2 million.

In the first six months, performances were affected by the policy of destocking of certain European retailers. In the second half sales registered a marginal upturn.

While sales to retailers were less robust than in prior years, sell-out trends or sales by retailers to customers remained buoyant. In line with targets at the beginning of the year, **the Group continued to build market share in several international markets**, driven by successful reformulations of certain key products and a new advertising campaign.

As expected, Skin Care sales declined marginally (-0.6%⁽²⁾), as compared to the particularly strong growth of the prior year.

The reformulated Extra Firming line, impatiently awaited by markets, produced excellent results as soon as introduced in August 2005. Specifically adapted to the needs of women over 40, *Extra Firming Day Cream* and *Extra Firming Night Cream* inaugurate a breakthrough of the Clarins laboratories against the effects of time and the adverse consequences of pollution in the environment through the action of such plants as soft wheat or alfalfa and a new "Anti-Pollution" Complex.

Research by our laboratory also led to improved effectiveness of Clarins *Total Body Lift Stubborn Cellulite Control* through a reinforced complex of caffeine and exclusive plant extracts (cangzhu root, Ceylon hortonia, Cat's Claw of Peru...). Boosted by this launch, **the Body Care line gained 12.4%⁽²⁾.**

Strengthened by the addition of *Shine Free Gel*, **ClarinsMen line continued its expansion in the men's skin care segment.** Four years after its launch, the line ranks number two in Europe and has gradually built up strong positions in the other continents. Its sales continue to be driven by the success of *Moisture Balm* and *Moisture Gel*, gaining 6.4%⁽²⁾.

Make-up sales registered modest gains (+2.7%⁽²⁾). Foundations posted stronger growth, boosted by the success of *True Conform Foundation*, a velvety-smooth formula for dry skin, while the Eye Make-Up range was extended by the addition of the *Wonder Volume Mascara*, producing sublime eyes with its Wonder-Full Complex. The performance of this latter segment also benefited from sales kits proposed for the Christmas season and the success of new trends launched by the seasonal collections. Offering a rich palette of vibrant colours, *In The Mood For Love* and *Good Vibrations* illustrated the ability of Clarins Make-up to successfully combine creativity, quality and modernity.

(1) At average exchange rates

(2) At constant exchange rates

The new worldwide advertising campaign also boosted brand sales with a new visual to convey its values. Through three silhouettes, three faces, three smiles, Clarins reaffirms its vocation in the service of the beauty of women, regardless of age. This campaign, also new in the intimacy of its tone combined with well-chosen and balanced visuals, reinforces the serious and modern image of the brand.

1.2 Perfumes

2005 was particularly eventful for this Division, marked by the addition of two new perfume brands: Clarins and Stella Cadente. These initiatives combined with the success of *Alien*, the latest creation of Thierry Mugler, and the very positive response to *Silver Black* of Azzaro Perfumes, **contributed to remarkable 18.6%⁽²⁾ growth for Perfumes that today accounts for 40.9% of consolidated net sales.**

Clarins perfumes with two fragrances, *par Amour* and *par Amour toujours*, were launched in May 2005 in all world markets except Asia. This launch was successfully implemented and will be extended to Asia in 2006 accompanied notably by the addition of extension products.

Miss Me, Stella Cadente's first feminine fragrance developed under a license agreement, was launched in May at limited and highly selective points-of-sale in France (180 doors) and the United States on an exclusive basis at Nordstrom (100 doors). It will be progressively launched in other markets starting in 2006.

Thierry Mugler Parfums registered a strong upturn (14.4%⁽²⁾) boosted by the performance of its new mysterious fragrance, *Alien*. Launched in September 2005 in several markets, it will be rolled out in Spain, Portugal and Mexico in 2006. This new creation proposes a surprisingly original concept and olfactory range (with strong notes of white amber, cashmeran wood and jasmine sambac) and 13 years after the launch of the mythical *Angel*, *Alien's* beginnings have been marked by comparable excitement and promise.

Angel also now proposes three floral versions (*Violet, Lily, Peony*) with *Garden of Stars, Angel* and *Garden of Stars* had combined growth of 9.1%⁽²⁾. In February 2006, to celebrate this constellation of stars and flowers, *Rose*, a fourth fragrance will be added.

Azzaro Perfumes sales posted contained growth of 4.4%⁽²⁾. The brand's two major fragrance classics performed well: *Chrome* that advanced slightly is the six top-selling fragrances in the United States, while *Azzaro Pour Homme* with its younger version *Silver Black*, launched in the fall in France and in North America (under the name *Onyx*), achieved combined sales growth of 20.5%⁽²⁾.

In 2006, Azzaro Perfumes will benefit from the major poster advertising campaign for *Silver Black* launched at 2005 year-end and the boost provided by the advertising film inaugurating the 10-year anniversary of *Chrome*.

Perfume Distribution gained 13.8%⁽²⁾. Excluding sales of Procter & Gamble brands in the United States for which the distribution agreement has expired as planned at 2005 year-end, sales increased 48.0%⁽²⁾ to €3.0 million. In 2005, P&G brands distributed by the Group in the United States had sales of €4.4 with growth of 5.7%⁽²⁾.

⁽²⁾ At constant exchange rates

2. NET SALES BY GEOGRAPHICAL AREA

Consolidated data	2005	2004 (IFRS)	Change ⁽¹⁾	Like-for-like Change ⁽²⁾
	In € million	In € million	In %	In %
Europe	589.7	578.5	+1.9%	+2.1%
North America	250.1	224.2	+11.6%	+10.6%
Asia	95.7	77.2	+23.9%	+21.7%
Other ⁽³⁾	62.7	52.1	+20.3%	+19.4%
Total	998.2	932.0	+7.1%	+6.7%

2.1 Europe

The European market in 2005, in line with trends of the prior year, remained adversely affected by weak consumer spending and continued destocking by certain major European retailers.

Market conditions in all European countries, this time including Spain and the United Kingdom, were challenging. In France, the prestige cosmetics market retreated 1.8% on a sell-out basis (Source NPD) with a decline in volume of 5.1%. In Germany, trends remained very competitive, declining 2.6%. Spain and Italy also posted negative performances. Only the United Kingdom registered positive growth, but at a slower pace compared to previous years.

In most countries, the **Group brands performed favourably** increasing 2.1% with positive gains in the second and third quarters. The strongest gains were in the travel retail segment that expanded 13.5%⁽²⁾.

2.2 North America

North America continued to produce a satisfactory growth of 10.6%⁽²⁾, despite the impact of difficulties experienced by US and Canadian department stores and **the merger between Federated and May**, two major selective retail players in the United States. The closing of doors in response to this merger had an adverse effect on sales of the industry as a whole and the Group.

In the second half, these trends were compounded in the US by the effect of surging oil prices and natural disasters, contributing to a sharp slowdown in the cosmetics market. As a result, estimated growth for the full year is 2% versus 5% for the first half.

(1) At average exchange rates

(2) At constant exchange rates

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

In the **United States**, Group sales expanded 6.6%⁽²⁾. This performance must be evaluated in light of the impact of preparations to discontinue the distribution of Procter & Gamble Group brands effective January 1, 2006.

Particularly strong growth of 38.7%⁽²⁾ was achieved in **Canada** through diversification in the selective pharmacies niche and an enthusiastic and a dynamic local team. In **Mexico** as well, where the Group has significantly invested to develop its brands with new display counters, sales surged 53.3%⁽²⁾.

2.3 Asia

With total growth of 21.7%⁽²⁾, sales in Asia registered strong expansion in all countries. Excluding Japan, sales in this region grew 28,0%⁽²⁾.

An offering and distribution methods specifically adapted to local consumer behaviour highlight the Group's ability to meet the needs of this market. The Clarins brand in particular has made significant gains in Taiwan, South Korea and in the travel retail market.

In **Skin Care**, the *White Plus* line and *Total Body Lift* have achieved excellent performances and in the Make-up segment, *Instant Light Perfecting Touch* pen remains a top-selling product.

Trends in **Japan** remained positive with Group sales up 5.9%⁽²⁾, despite highly competitive market conditions driven by local brands. On a sell-out basis, gains by the Group exceeded 7% versus 4.1% for the market as a whole.

2.4 Other Countries

Other Countries grew 19.4%⁽²⁾, **fuelled by sustained sales** in the Middle East and Latin America. In the Middle East, boosted by the rise in oil prices, successful marketing initiatives generated sales growth of 32.1%⁽²⁾. **Latin America** registered comparable performances.

3. 2005 RESULTS AND 2006 OUTLOOK

In 2005, Group sales came close to the €1 billion milestone. The marginal shortfall in relation to this target (0.2%) is not significant and will have no impact on earnings. **The initial operating margin target of 12% is now expected to be slightly surpassed.**

The audit of 2005 results is currently in progress and the definitive results will be published on March 23, 2006 after the close of trading on Euronext Paris.

In 2006, efforts will focus on **Skin Care** and several innovative products will be added to our offering in the first half.

For Facial Care, a *Total Eye Concentrate* will be added to complete the Super Restorative line, and two *One Stop Cleansers - Water Purify and Water Comfort* will expand the Make-up remover line.

Clarins will provide sun protection for all skins through its redesigned sun care line and *UV Plus Protective Day Screen SPF 40*, with 100% mineral filters that also offers protection against pollution.

In the White Plus line, a *Skin Renew Whitening Program* will be proposed in Asia to achieve rejuvenated skin transparency in three weeks.

Finally, **Make-up** will be further enriched by *Express Compact Foundation*, *Souffle de Rouge*, and the spring-summer collection "*Touch of Magic*" providing balanced mix of protective skin care and shimmering colours.

(2) At constant exchange rates

For Perfumes, the *Rose* will complete the *Garden of Stars* of Thierry Mugler Parfums. *Alien* with new extension products will pursue its advance in conquering new markets and Azzaro perfumes will present *Bright Visit*, a freshness fragrance for men. *Onyx/Silver Black* and *Miss Me* will continue to be rolled out and Clarins Perfume activity will propose extension products of *par Amour*.

With this marketing plan, Group management anticipates new growth in sales on a like-for-like basis. Consolidated sales, after a probable retreat by a few points in response to the discontinuation of distribution of P&G Group perfumes in the United States, should then be ideally positioned to surpass the €1 billion milestone.

NET SALES BY QUARTER				
Consolidated data	2005	2004	Change ⁽¹⁾	Like-for-like change⁽²⁾
	In € million	In € million	In %	In %
1 st quarter	225.1	214.3	+5.1%	+6.6%
2 nd quarter	235.5	219.1	+7.5%	+8.8%
1st half	460.6	433.4	+6.3%	+7.7%
3 rd quarter	238.1	218.9	+8.7%	+8.3%
4 th quarter	299.5	279.7	+7.1%	+4.0%
2nd half	537.6	498.6	+7.8%	+5.9%
TOTAL	998.2	932.0	+7.1%	+6.7%

(1) At average exchange rates

(2) At constant exchange rates

Upcoming events

- **March 23, 2006:** 2005 earnings
- **April 20, 2006:** 2006 first quarter net sales

Tuesday, May 24 2006 : Annual Shareholders' Meeting

Allée de Longchamp,
Pavillon d'Armenonville
Bois de Boulogne, 75116 Paris France

8:30 a.m. Welcome and registration

9:30 a.m. Beginning of the meeting

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