



February 1, 2007

LETTER TO SHAREHOLDERS 2006 NET SALES

Dear Shareholders,

For 2006, Clarins ended the year with net sales of €967.2 million. This like-for-like growth of 5.5% represents a very satisfactory performance in light of worldwide growth trends and a challenging environment for our industry: fierce competition, particularly in the perfume market with the proliferation of new products, destocking by retailers, concentration in distribution...

The Beauty Division posted excellent gains of 8.9%, growing more than twice the rate of the overall market!

The launches of 2006, introducing further innovations and solutions to meet evolving customer needs, have enriched an already widely acclaimed catalogue of products, again illustrating the creativity and performance of Clarins Laboratories in Research.

Perfume Division sales declined marginally like-for-like, reflecting the absence of major launches in the period in contrast to the significant number in 2005. In addition, our US subsidiary was adversely affected by the discontinued distribution of Procter & Gamble fragrances effective as of January 1, 2006.

In a highly competitive market driven by new products, performances of par Amour and Miss Me and additions to the Perfume Distribution portfolio in the United States in 2006 failed to meet expectations.

In contrast, sales of our main fragrance brands, Thierry Mugler and Azzaro, were in line with our objectives and Angel, AMen, Chrome and Azzaro Pour Homme, classic fragrances launched several years ago, resisted well.

Along with a renewal of the Make-up line, other advances in 2007 will include innovations in Skin Care and several initiatives by the Perfume Division. These new products, some of which have already received very positive reviews from the press, will contribute to further sales growth by expanding the performances of our existing offering.

Christian Courtin-Clarins
Chairman of the Management Board

Consolidated data	2006	2005	2006/2005 change	
	In € million	In € million	Reported ⁽¹⁾	Like-for-like ⁽²⁾
Beauty	643.0	590.2	+8.9%	+8.9%
Perfumes	324.2	408.0	-20.5%	-0.8%
Total	967.2	998.2	-3.1%	+5.5%

1. NET SALES BY ACTIVITY

1.1 Beauty

In 2006 priorities focussed on redeployment in favour of Beauty and adding several new products to the Make-up and Skin Care lines. Very positive responses to these new products combined with continued gains by the catalogue of existing products drove sales growth of 8.9%⁽³⁾ that was accompanied by market share gains in several countries.

Skin Care advanced 10.2%⁽³⁾, driven by excellent performances of the Face and Body segments.

Contributing to a brighter complexion and minimizing the appearance of wrinkles, the latest additions to the Super Restorative line – *Night & Day Creams Very Dry Skin*, *Day Cream SPF 20* and *Total Eye Concentrate* – are showing a very promising start.

The Extra-Firming line, whose reformulation was initiated in 2005, has been enhanced by an *Eye Contour Cream* and an *Eye Contour Serum*, as well as a *Neck Cream*. An undisputed success with women over 40.

The Body segment also posted strong growth, particularly against the backdrop of the very successful 2005 launch of *Total Body Lift* resulting in a high basis of comparison.

Following the success in the first half of the *Smoothing Body Scrub for a New Skin* including the exfoliating action of bamboo powder, in September customers welcomed the launch of *Redefining Body Care for Abdomen and Waist*, the first body care product to address changes in body shape when hormonal activity starts to slow down.

ClarinsMen continued its expansion (+5.8%⁽³⁾) with solid performances by *Moisture Balm* and *Moisture Gel* and *Skin Difference*, the latest addition to the men's skin care line and the first complete shave zone and skin care product. After being launched in France in October 2006, *Skin Difference* will be rolled out to other countries in 2007.

With a completely revamped Make-up line under preparation for the first quarter of this year, there were no major launches by Clarins in the 2006 second half. Even though the brand adopted a very

⁽¹⁾ At average exchange rates

⁽²⁾ At constant exchange rates and on a comparable basis (excluding perfume distribution in the United States)

⁽³⁾ At constant exchange rates

cautious approach to sales management, the second half was adversely affected by returns of products discontinued in 2006 and provisions recorded in consequence for 2007.

However, noteworthy successes by products launched in the first half contributed to a full-year growth of 1.4%⁽¹⁾. Associated with the *Touch of Magic* spring-summer collection, *Instant Smooth Perfecting Touch*, that reduces the appearance of lines, wrinkles and other imperfections with its acacia micro-pearls, has been a worldwide success with more than 700,000 products sold to date.

Sales were also fueled by the new line of lipsticks, *Lip Colour Tint*, *Express Compact Foundation* and 2005 second-half launches, *Mascara Wonder Volume* and *True Comfort Foundation*.

1.2 Perfumes

Trends for perfume sales have been undermined by fierce competition with growth in different markets driven exclusively by new product launches and price increases. In addition, the Group's commercial organization was adversely affected by challenges resulting from the expiration of the distribution agreement with Procter & Gamble in the United States.

In this environment and without significant launches, Perfumes ended the period down marginally 0.8%⁽²⁾. However, this performance must be analyzed against the backdrop of the remarkable 23.1% growth⁽²⁾ in 2005 with the launch of four new perfumes.

The sales of **Thierry Mugler Parfums** declined marginally 0.8%⁽¹⁾ though on the basis of comparison with the strong growth from the launch of *Alien* in August 2005. For the full year, Thierry Mugler Parfums second top-selling women's fragrance confirmed its potential as a growth driver for the brand with new market share gains.

Despite the lack of new developments, *Angel* sales remained at excellent levels, retaining its ranking among the top-selling fragrances. In 2007, it will celebrate its 15th anniversary that will be marked by a number of special events.

AMen, a classic men's fragrance, and *Cologne* benefited from the success of limited editions *Summer Flash*.

To maintain its competitive differentiation in the perfume market, Thierry Mugler launched *Innocent Secret* on an exclusive basis in Victoria's Secret boutiques in the United States. It has also been made available for purchase through the *Club des Créateurs de Beauté*, specialised in mail order for selective brands.

Azzaro Perfumes expanded 2.2%⁽¹⁾ despite an unfavourable basis effect reflecting the launch of *Onyx/Silver Black* in France and the United States in the 2005 second-half.

Chrome, that has already attained significant volumes, continued its advance. Boosted by a television advertising campaign launched for its 10 year anniversary, this fragrance continues to be attractive among all generations.

Sales of *Azzaro Pour Homme* combined with *Silver Black* registered very satisfactory growth, boosted by the good performance of the newer version whose launch was extended to all countries in 2006. *Azzaro Pour Homme* remains highly popular in France as the fourth top-selling fragrance (source: NPD).

⁽¹⁾ At constant exchange rates

⁽²⁾ At constant exchange rates and on a comparable basis

Sales by Clarins Perfumes' *par Amour* and *par Amour toujours*, along with *Miss Me* distributed under a Stella Cadente license agreement, came in below Group targets.

Perfume Distribution expanded 30.8%⁽²⁾, driven notably by the success of *Terre d'Hermès*. In contrast, the new brands distributed by this division in the United States did not meet expectations.

2. NET SALES BY GEOGRAPHICAL AREA

Consolidated data	2006	2005	2006/2005 change	
	In € million	In € million	Reported ⁽¹⁾	Like-for-like ⁽²⁾
Europe	615.2	589.7	+4.3%	+4.3%
North America	179.2	250.1	-28.4%	+6.5%
Asia	109.3	95.7	+14.2%	+13.8%
Other ⁽³⁾	63.5	62.7	+1.3%	+2.5%
Total	967.2	998.2	-3.1%	+5.5%

2.1 Europe

With mature markets where distribution is dominated by perfumery chains (with the exception of the United Kingdom), the European landscape is still in a phase of significant transformation marked by a wave of M&A activity at the expense of traditional perfumeries and a focus on optimizing inventory management at times resulting in stock outages.

Despite these underlying trends, sales in **Europe** grew 4.3%⁽⁴⁾ in response to solid gains by the Beauty Division (+7.7%⁽⁴⁾) in most countries. The 0.7%⁽⁴⁾ decline in Perfumes in relation to the high level of sales of the previous year and mitigated results of certain initiatives in 2005 limited growth in this region.

In **France**, a market where growth on a sell-out basis (+3% according to NPD) was driven primarily by price increases, the Clarins brand registered a particularly noteworthy performance with gains of 2.0% for skin care (versus 1.1% by the total market) and 7.8% for make-up (versus 5.0%). Azzaro fragrances achieved a further increase in market share, advancing 3.6% (versus 3.3% by the total market). In addition, Thierry Mugler retained its ranking as the fifth top-selling fragrance with a market share of 4.4%

(1) At average exchange rates

(2) At constant exchange rates and on a comparable basis

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

(4) At constant exchange rates

In other European countries, the Group achieved satisfactory growth of more than 5% except in Italy and Spain, two markets adversely affected by significant destocking by retailers. On a sell-out basis, the Group outperformed the market for beauty products, particularly in Germany and Switzerland.

2.2 North America

Sales in North America grew 6.5%⁽¹⁾.

In the **United States**, the Beauty Division had strong sales (+9.9%⁽²⁾) despite a decrease in the number of doors in response to the Federated & May merger, boosted by a highly successful launch by *Instant Smooth Perfecting Touch*.

For Perfumes, the Group was in contrast adversely affected by the reorganization of the sales force following the expiration of the distribution agreement for Procter & Gamble lines, the marginal success by *Onyx* of Azzaro and disappointing performances of new brands added to the distribution portfolio.

Thierry Mugler successfully strengthened its market position.

In **Canada** and **Mexico**, the proactive approach of local sales teams and the new brands for the perfume distribution activity fueled strong growth.

2.3 Asia

The creativity of marketing teams in successfully adapting its offering to the region enabled Clarins Group to achieve sales growth of 13.8%⁽²⁾. Beauty alone (92.1% of total sales) expanded 17.6%⁽²⁾.

In Japan, with sales growth exceeding 10%, Clarins continued to win back market share in most stores despite fierce competition from local brands.

In other countries of the region, Clarins pursued strong growth, significantly outpacing the expansion of local markets. As a result, the Group again added market share in virtually all countries, with noteworthy gains in **South Korea** and **Taiwan**.

2.4 Travel Retail

In 2006, the travel retail segment accounted for 9.9% of Clarins Group sales. Positive trends for passenger traffic in 2006 contributed to sales growth of 9.7%⁽²⁾. Very active in these markets in Asia and Europe, the Group benefited from the success of *Travel@Clarins*, a line of skin care and make-up kits for travellers.

The impact on Group sales of regulations introduced in August 2006 imposing rules for carry-on baggage for perfumes and cosmetics has been short-lived and very limited.

⁽¹⁾ At constant exchange rates and on a comparable basis

⁽²⁾ At constant exchange rates

2.5 Other countries

Other countries where sales are assured primarily through agents posted marginal growth of 2.5%⁽¹⁾ following a period of significant inventory building in 2005, notably in connection with the launch of Clarins perfumes.

3. 2007 OUTLOOK

A high point of 2007 will be the introduction of a **new make-up line** by Clarins in January with an accent on light, luxury and colour. Easy-to-use and designed for daily use on all occasions, this line combines the most demanding technical requirements with the attractive features of fashion accessories.

The 2007 first half will also be marked by **new skin care products introducing the latest technological breakthroughs**:

- Following a remarkable discovery by Clarins Research establishing the link between accelerating aging of skin with exposure to electromagnetic effects, in January 2007 Clarins launched *Expertise 3P Screen Mist* shielding the skin from all types of pollution.
- *Stretch Mark Control* offering an effective solution against stretch marks, reducing their appearance and limiting their pink coloration.
- Patented for its action at the source for a balanced complexion, *Truly Matte* will be the first skin care line to finally propose solutions for combination or oily skin.
- In 2007, the new *White Plus HP* line, enhanced by the exclusive HP Lock-Around® System, will offer in addition, protection against the over-production of melanin: a giant breakthrough in *High Performance* skin care for a clear and radiant complexion.

Noteworthy events in the **Perfume Division** will include:

- For Thierry Mugler Parfums, the launch in early April of two fragrances with fresh and aquatic notes: a “delicious water” for women, *Eau de Star*, and a “polar” fragrance for men, *Ice Men*.
- For Azzaro, the launch of its first duo fragrance, Azzaro Now Women and Azzaro Now Men, in mid-March 2007, with a high tech design of inter-fitting bottles. With metallic and warm notes, the *Now* duo is destined for the large segment of young adults.

Based on positive responses to these future launches following their advance presentation to the press and distributors, **the Group expects further growth in 2007 in consolidated net sales.**

⁽¹⁾ At constant exchange rates

NET SALES BY QUARTER				
Consolidated data	2006	2005	Change	Like-for-like change
	In € million	In € million	In %	In %
1 st quarter	238.3	225.1	+5.8%	+8.6%
2 nd quarter	236.3	235.5	+0.4%	+8.4%
1st half	474.6	460.6	+3.0%	+8.5%
3 rd quarter	214.7	238.1	-9.8%	+1.6%
4 th quarter	277.9	299.5	-7.2%	+3.9%
2nd half	492.6	537.6	-8.4%	+2.9%
TOTAL	967.2	998.2	-3.1%	+5.5%

Upcoming events

- **March 15, 2007** : 2006 results
- **April 19, 2007** : 2007 first-quarter net sales

Friday, May 11, 2007
Annual Shareholders' Meeting
Pavillon d'Armenonville
Allée de Longchamp, Bois de Boulogne, 75116 Paris
8:30 a.m. Welcome and registration
9:30 a.m. Beginning of the meeting

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