



LETTER TO SHAREHOLDERS 2006 RESULTS

Neuilly, March 15, 2007

Dear Shareholders,

Fiscal year 2006 ended on a positive note. Robust sales contributed to growth nearly twice that of the overall market on a comparable basis and we met our earnings targets.

Net sales increased like-for-like 5.5% to €967.2 million.

Operating profit of €127.3 million registered a marginal increase over 2005 despite the discontinued distribution of Procter & Gamble fragrances in the US.

The operating margin was 13.2% versus 12.7% in 2005, gaining an additional 0.5 point notably through optimized management of manufacturing costs.

A record net profit of €223.3 million includes a fair value adjustment of financial assets held by Clarins in L'Occitane International of €125.6 million. This adjustment follows the conversion of L'Occitane International bonds into shares on February 26, 2007. After conversion, Clarins shareholding in this company increased to 22.97%.

These shares are part of a transaction under suspensive conditions accepted by the Supervisory Board on March 14, 2007. This transaction will give Clarins a stake of 10.05% of a newly created company, which will be the shareholder of L'Occitane International, and a cash payment of €132.2 million.

To reward our shareholders for this year's performance, we will ask the General Meeting to approve a special dividend of €0.50 in addition to a regular dividend of €0.85.

Our decision to invest in L'Occitane, notably through partnerships in several countries, has been particularly fruitful. We hope to repeat this success with new partnerships concluded with Porsche Design and David Yurman through license agreements and the minority stake acquired in Kibio, specialized in natural organic cosmetics.

2007 is off to a good start. Your Group will continue to mobilize the creativity of its marketing teams and the research of Clarins Laboratories with innovations in skin care and a completely renewed make-up line. Perfumes will be enriched by the addition of new fragrance creations and for the first time, Group products will be sold directly online through their own e-commerce sites soon to be launched.

These many developments will assure the continuation of our "Beautiful Success".

***Christian Courtin-Clarins
Chairman of the Management Board***

Consolidated financial highlights (IFRS)	2006	2005	2006/2005 Change	
	In € million	In € million	At average exchange rates	At constant exchange rates
Net sales	967.2	998.2	-3.1%	-3.1%
Operating profit	127.3	126.4	+0.8%	+1.3%
Net profit – Group Share	223.3	96.7	+130.8%	+133.1%
Cash flow	114.7	116.0	-1.1%	-
Net cash	54.8	31.9	+71.8%	-
Stockholders' equity	780.7	585.4	+33.4%	-
Capital expenditures	56.1	44.5	+26.0%	-
Change in working capital	6.5	17.0	-	-
Earnings per share in €	5.81	2.56	+127.0%	-
Dividend per share in €	1.35	0.85	+58.8%	-

1. NET SALES ⁽³⁾

Consolidated data	2006	2005	Change ⁽¹⁾	Like-for-like change ⁽²⁾
	In € million	In € million		
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%

1.1 Net sales by activity

The Beauty Division posted 8.9% growth driven by an ambitious marketing plan and solid performances by the existing catalogue.

Skin Care advanced 10.2% ⁽²⁾ with excellent gains by the Face and Body segments. The Super Restorative face products met with great success and so did the latest reformulations of the Extra-Firming line, targeting women over 40. *Smoothing Body Scrub* and *Redefining Body Care for Abdomen and Waist* fueled strong growth in the Body segment.

Make-up registered growth of 1.4% ⁽²⁾ despite increased product returns and provisions recorded in connection with the renewal of the make-up line for 2007. The star performer in 2006 was *Instant Smooth Perfecting Touch* with close to 700,000 units sold.

Perfume sales trends reflected fierce competition with growth in different markets driven exclusively by product launches and price increases. In addition, the Group's commercial organization was adversely affected by the expiration of the distribution agreement with Procter & Gamble in the United States. In response, perfume sales declined 20.5%.

(1) At average exchange rates

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

(3) For more detailed information, refer to the Letter to Shareholders of February 1, 2007

Excluding the impact of this agreement expiration, perfumes ended 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 under the Clarins, Mugler, Azzaro and Stella Cadente brands.

1.2 Sales by geographical area

Consolidated data	2006	2005	Change ⁽¹⁾	Like-for-like change ⁽²⁾
	In € million	In € million	%	%
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	63.5	62.7	+1.3%	+2.5%
Total	967.2	998.2	-3.1%	+5.5%

Sales in **Europe** grew 4.3% ⁽²⁾ thanks to solid gains by the Beauty Division in most countries (+7.7% ⁽²⁾ for the region as a whole) and despite a high basis of comparison for Perfumes in 2005.

Sales in **North America** grew 6.5% ⁽²⁾. In the **United States**, boosted by a highly successful launch of *Instant Smooth Perfecting Touch*, the Beauty Division posted strong growth (+9.9% ⁽²⁾) despite a decrease in the number of doors following the Federated & May merger. Perfumes were in contrast adversely affected by the reorganization of the sales force following the expiration of the distribution agreement for Procter & Gamble lines and disappointing performances by brands recently added to the distribution portfolio.

In **Asia**, the expertise of the marketing teams in identifying local needs and creativity in adapting the offering contributed to 13.8% ⁽²⁾ growth by Clarins Group. Beauty Division (92.1% of the area total sales) expanded 17.6% ⁽²⁾.

Other Countries where sales are assured primarily through agents posted marginal gains of 2.5% ⁽²⁾ following a period of significant inventory building in 2005, notably in connection with the launch of Clarins perfumes.

(1) At average exchange rates

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

2. CONSOLIDATED RESULTS

2.1 Operating profit

Despite the impact of the discontinued distribution of Procter & Gamble brands that generated sales of €4.4 million in 2005, Group operating profit increased from €126.4 million in 2005 to €127.3 million in 2006. **In line with Group objectives, the operating margin advanced 50 basis points from 12.7% to 13.2%.**

Manufacturing costs currently account for only 29.1% of sales versus 31.7% in 2005. This improvement reflects the high costs of sales of the Procter & Gamble brands no longer distributed, productivity gains achieved through rigorous management and a favourable product mix.

To lay the foundations for long-term development, the best guarantee of sustained growth, the Group further strengthened the budget for **commercial expenses** (advancing as a percentage of sales from 45.9% to 47.7%). Advertising and promotional expenses increased in consequence, notably to support product launches in the year and a new communication campaign in favour of Beauty. At the same time, reinforcing the visibility of the Clarins brand, the Group opened two new boutiques in Mexico.

Administrative expenses registered a modest increase that includes the full-year impact of the Russian subsidiary and the set up of new premises to accommodate the growth in the Group workforce.

Operating profit by activity	2006		2005		2006/2005 change	
	In € million	Margin ⁽¹⁾	In € million	Margin ⁽¹⁾	At average exchange rates	At constant exchange rates
Beauty	96.8	15.1%	93.5	15.8%	+3.5%	+3.8%
Perfumes	30.5	9.4%	32.9	8.1%	-7.1%	-6.0%
Total	127.3	13.2%	126.4	12.7%	+0.8%	+1.3%

(1) Operating profit / Net sales

The 0.7 point decline in the operating margin to 15.1% for the **Beauty Division**, in line with forecasts, includes advertising and selling costs for an ambitious marketing plan especially for skin care, investments associated with the new communication campaign and the opening of boutiques under the Clarins brand.

In contrast, advertising and promotional expenses for **Perfumes** were lower in comparison with 2005 that was marked by a number of launches. As a result, the operating margin increased 1.3 points to 9.4%.

2.2 Net profit

Net profit of €23.3 increased 130.8% after the recognition of a fair value adjustment of €125.6 million for L'Occitane International financial assets.

This significant adjustment resulted from the remeasurement of L'Occitane International shares and convertible bonds in the period. Based on a valuation of L'Occitane Group by an independent expert of €800 million, these assets were recognized at €183.8 million. This valuation, that takes into account the excellent results of the preceding fiscal year approved by the general meeting of L'Occitane International at the end of September 2006, was accepted by both groups.

Pursuant to this valuation, after the 2006 closing date Clarins converted the bonds into shares, thus increasing its stake in L'Occitane International to 22.97%.

These shares are part of a transaction under suspensive conditions accepted by the Supervisory Board on March 14, 2007. According to this transaction, Clarins will tender a portion of these shares to a new investment holding company owning L'Occitane International capital, in which Clarins will have a 10.05% stake. The balance of L'Occitane International shares currently held by Clarins will then be sold to the new holding for €32.2 million.

The scope of this fair value adjustment is the result of the assumption retained for previous fiscal years under which the bonds would not be converted into shares and were measured on the basis of the peer group method. The revised estimate for December 31, 2006 is based on new information obtained before the closing concerning both the valuation of the shares and the conversion of the bonds into shares.

3. BALANCE SHEET AND CASH FLOW

Cash flow was nearly flat at €14.7 million in relation to 2005, despite the expiration of the P&G distribution agreement in the US.

Capital expenditures totalled €6.1 million in 2006 versus €4.5 million in the prior year. This increase concerns notably investments relating to the expansion and compliance measures for the Pontoise and Strasbourg production sites and work initiated in 2005 on the construction of a warehouse in Switzerland. Other capital expenditures include renovations and installations for stands and Clarins's institutes and boutiques.

Financial investments of €1 million are corresponding to the subscription for a first payment of a convertible bond issue and to the acquisition by Clarins Group of a 10 % stake in Kibio.

Working capital requirements increased €6.5 million after a change of plus €17 million in 2005. This marginal increase reflects improvements in the management of inventories and trade receivables.

Free cash flow of €2.9 million further strengthened the Group's net cash balance that totalled €4.8 million at year-end.

Group stockholders' equity after distribution totalled €725.7 million.

4. COMBINED GENERAL MEETING

A combined General Meeting will be held on **Friday, May 11, 2007 at 9:30 a.m.** (admission beginning at 8:30 a.m.) at the Pavillon d'Armenonville, Salon Longchamp, Allée de Longchamp, Paris 75016.

Shareholders will be asked to approve a **special dividend of €0.50 in addition to the regular dividend of €0.85** payable on June 11, 2007. This corresponds to a 58.8% increase in net dividend.

Upcoming events

- **April 19, 2007:** First-quarter net sales
- **July 26, 2007:** First-half net sales
- **September 13, 2007:** First-half earnings
- **October 18, 2007:** Third-quarter net sales



EUROLIST-COMPARTMENT A

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CONSOLIDATED STATEMENT OF INCOME

In € thousand	12/31/2006	12/31/2005	Change ⁽¹⁾	12/31/2004
NET SALES	967,183	998,204	(3.1%)	932,012
Manufacturing costs	(281,876)	(316,872)	(11.0%)	(301,479)
Selling expenses	(461,649)	(458,357)	0.7%	(417,431)
Administrative expenses	(96,477)	(95,544)	1.0%	(92,201)
OPERATING INCOME BEFORE NON-RECURRING ITEMS	127,181	127,431	(0.2%)	120,901
Other operating incomes (expenses)	150	(1,068)	N/S	0
Depreciation of trademarks and goodwill	0	0		0
TOTAL OPERATING EXPENSES	(839,852)	(871,841)	(3.7%)	(811,111)
OPERATING INCOME	127,331	126,363	0.8%	120,901
Cash and cash equivalents incomes	5,581	4,148	34.5%	4,465
Debt cost	(4,989)	(4,863)	2.6%	(5,763)
NET DEBT COST	592	(715)	(182.9%)	(1,298)
Other financial incomes (expenses)	123,088	10,659	N/S	5,583
Gain (loss) on exchange (net)	(1,535)	(1,639)	(6.3%)	(225)
Provision for income taxes	(27,721)	(39,607)	(30.0%)	(38,531)
NET INCOME OF FULLY CONSOLIDATED COMPANIES	221,755	95,061	133.3%	86,430
Group's equity in net income (losses) of associated companies	1,838	1,460	25.9%	802
Net result of discontinued activities	0	327	(100.0%)	235
NET INCOME	223,593	96,848	130.9%	87,467
Group shares	223,327	96,742	130.8%	86,980
Minority interests	266	106	150.9%	487
Weighted average number of shares outstanding during the period	38,440,559	37,856,996		32,190,060
EARNING PER SHARE ⁽²⁾	5.81 €	2.56 €		2.31 €
FULLY DILUTED EARNING PER SHARE ⁽²⁾	5.75 €	2.53 €		2.30 €

(1) Based on average exchange rates

(2) Adjusted for the successive bonus issues

Balance sheet - Assets

	12/31/2006	12/31/2005	12/31/2004
In € thousand			
NON CURRENT ASSETS			
Goodwill	19,678	19,681	19,936
Intangible assets	75,389	69,322	70,786
Property, plant and equipment	178,743	163,258	147,159
Equity - accounted investments	11,564	10,498	9,750
Minority holdings	33,725	22,505	14,764
Other non-current assets	162,068	36,913	39,606
Deferred income taxes	6,796	7,236	5,298
TOTAL NON CURRENT ASSETS	487,963	329,413	307,299
CURRENT ASSETS			
Inventories	154,812	155,288	136,156
Accounts and notes receivable-trade	254,975	289,320	259,584
Other receivables	31,465	39,451	32,910
Current income taxes	11,211	4,413	8,241
Other financial assets	5,780	0	9,483
Cash and cash equivalents	231,284	217,164	208,193
Prepayments	87,123	71,479	64,024
TOTAL CURRENT ASSETS	776,650	777,115	718,591
TOTAL ASSETS	1,264,613	1,106,528	1,025,890

Balance sheet - Liabilities and stockholders' equity

In € thousand	12/31/2006	12/31/2005	12/31/2004
STOCKHOLDERS' EQUITY			
Common stock	326,038	324,514	276,062
Additional paid-in capital	4,975	1,117	24,740
Retained earnings	548,389	357,707	303,245
Translation reserve	(18,511)	(10,555)	(22,197)
STOCKHOLDERS' EQUITY INCLUDING TREASURY STOCKS	860,891	672,783	581,850
Treasury stocks	(80,199)	(87,365)	(93,669)
TOTAL STOCKHOLDERS' EQUITY EXCLUDING TREASURY STOCKS	780,692	585,418	488,181
Minority interests in net asset of consolidated subsidiaries	1,069	933	898
TOTAL STOCKHOLDERS' EQUITY	781,761	586,351	489,079
NON CURRENT LIABILITIES			
Provision for contingency	21,062	26,811	35,436
Long term debts	21,256	22,333	84,585
Employee profit sharing plan	9,921	10,451	9,702
Deferred income taxes	7,785	9,340	8,551
CURRENT LIABILITIES	422,828	451,242	398,537
Provision for contingency	21,200	23,357	0
Current income taxes	13,896	14,692	29,634
Short-term borrowings	124,049	135,582	114,193
Other financial liabilities	462	610	0
Accounts and notes payable - trade	128,850	128,776	117,743
Other current liabilities	113,095	128,281	115,051
Bank overdrafts	21,276	19,944	21,916
TOTAL DEBTS	482,852	520,177	536,811
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	1,264,613	1,106,528	1,025,890

CONSOLIDATED STATEMENT OF CASH FLOWS

	12/31/2006	12/31/2005	12/31/2004
In € thousand			
Cash flows from operating activities			
Net income	223,327	96,742	86,980
Depreciation of property, plant and equipment	29,266	30,348	29,443
Amortization of intangible assets and other non-current assets	1,278	4,651	2,264
Fair value adjustments of financial instruments	(133,960)	(7,739)	(4,698)
Provision for loss on current assets	(228)	(366)	(9,061)
Increase (decrease) in non current provision for contingency	(5,117)	(7,554)	(5,743)
Minority interests in consolidated subsidiaries' net income	266	138	488
Group's equity in net (income) or losses of associated companies, net of dividends received	(171)	(177)	(680)
(Gain) loss on sale of fixed assets	8	6	21
Cash flows from operating activities	114,669	116,049	99,014
(Increase) decrease in net current working capital	(6,502)	(17,004)	15,219
Net cash provided by operating activities	108,167	99,045	114,233
Cash flows from investing activities			
Proceeds from sale of fixed assets	309	682	821
Capital expenditures	(48,780)	(41,733)	(22,784)
Purchases of intangible assets	(7,317)	(2,806)	(2,360)
Acquisitions of subsidiaries, net of cash acquired	(1,000)	(768)	(3,739)
Other investing activities	(41)	244	(805)
Net cash used in investing activities	(56,829)	(44,381)	(28,867)
Cash flows from financing activities			
Proceeds from issuance of long-term debt	4,169	468	4,236
Decrease in long-term debt	(5,188)	(65,090)	(4,636)
Increase (decrease) in short-term borrowings	(11,422)	22,648	(14,221)
Dividends paid by the Parent Company	(32,695)	(26,070)	(20,673)
Sale (purchase) of Treasury stock	7,166	6,304	4,003
Loans to associated companies	(81)	1,699	(3,306)
Capital increase resulting from exercise of stock options	5,382	8,619	2,264
Other financing activities	(1,335)	1,530	920
Net cash provided by financing activities	(34,004)	(49,892)	(31,413)
Effect of exchange rate changes on cash	(4,546)	6,171	(1,966)
Net change in cash and cash equivalents	12,788	10,943	51,987
Cash and cash equivalents at beginning of year (1)	197,220	186,277	134,290
Cash and cash equivalents at end of year (1)	210,008	197,220	186,277

(1) Cash and cash equivalents includes cash and cash equivalents net of bank overdrafts.

CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY

In € thousand

	Number of shares in capital	Common stock	Additional paid-in capital	Retained earnings	Results recorded through stockholders' equity ⁽¹⁾	Treasury stocks	Stockholders' equity before minority interests	Minority Interests	Total
Balance as of December 31, 2003	28,699,299	229,594	68,944	236,938	(17,506)	(97,672)	420,298	292	420,590
Change in capital									
Bonus issue (one for five)	5,751,307	46,010	(46,010)				0		0
Exercise of stock options	57,236	458	1,806				2,264		2,264
Change in Treasury stocks						4,003	4,003		4,003
2004 Net profit				86,980			86,980	487	87,467
Dividends for 2003				(20,673)			(20,673)		(20,673)
Results recorded through stockholders' equity					(4,691)		(4,691)	119	(4,572)
2004 change in translation reserve									
Balance as of December 31, 2004	34,507,842	276,062	24,740	303,245	(22,197)	(93,669)	488,181	898	489,079
Change in capital									
Bonus issue (one for six)	5,794,889	46,360	(30,150)	(16,210)			0		0
Exercise of stock options	261,494	2,092	6,527				8,619		8,619
Change in Treasury stocks						6,304	6,304		6,304
2005 Net profit				96,742			96,742	138	96,880
Dividends for 2004				(26,070)			(26,070)		(26,070)
Results recorded through stockholders' equity					11,642		11,642	(103)	11,539
2005 change in translation reserve									
Balance as of December 31, 2005	40,564,225	324,514	1,117	357,707	(10,555)	(87,365)	585,418	933	586,351
Change in capital									
Exercise of stock options	190,502	1,524	3,858				5,382		5,382
Change in Treasury stocks						7,166	7,166		7,166
2006 Net profit				223,327			223,327	266	223,593
Dividends for 2005				(32,695)			(32,695)		(32,695)
Change in scope				50			50	(130)	(80)
Results recorded through stockholders' equity					(7,956)		(7,956)	0	(7,956)
2006 change in translation reserve									
Balance as of December 31, 2006	40,754,727	326,038	4,975	548,389	(18,511)	(80,199)	780,692	1,069	781,761

(1) Of which companies within Euroland : 1,282 as of December 31, 2003
1,422 as of December 31, 2004
2,126 as of December 31, 2005
2,464 as of December 31, 2006