



January 31, 2008

## LETTER TO SHAREHOLDERS 2007 NET SALES

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*Dear Shareholders,*

***We have exceeded the €1 billion benchmark!***

*We achieved sales of €1,007.5 million, up 7.3% at constant exchange rates, above the full-year guidance of 6%.*

*This performance was particularly satisfactory given the unfavourable economic environment: uncertainties about the US economy, the continued reduction of inventories by certain retailers, a strong euro adversely affecting the European cosmetics industry and a fragile rebound in consumer spending in Europe. Only emerging countries that maintained robust growth continue to offer potential for strong expansion.*

*In this context, we have leveraged the strong values of our three brands.*

*In Make-up, the year was marked by the renewal of some products of the line with a new design and decisively modern colours that attracted customers of all ages, contributing to market share gains in a number of countries. In Skin Care, despite a marketing program that included fewer initiatives than last year, launches proposing the most advanced cosmetic innovations provided an opportunity to showcase the expertise of Clarins Research and to gain market shares.*

*For Perfumes, the Azzaro and Thierry Mugler brands confirmed their artistry through their modern use of the codes of traditional perfumery. Azzaro Perfumes achieved satisfactory growth sustained by strong performances of their classic fragrances. Sales of Thierry Mugler Parfums benefited from the continuing success of Angel and Alien.*

*Annual results to be published on March 19, 2008 will highlight an improvement in earnings in the second half compared to the first part of the year. This rebound is the result of better-than-expected net sales while maintaining our A&P expenses at the budgeted level, especially for the Clarins brand.*

*Nevertheless the operating margin for the full year will be lower than in 2006.*

*With our strong customer focus and capacity to constantly innovate, which enables us to answer the market needs, we clearly have in hands the resources to pursue our growth and we are starting the year 2008 with confidence.*

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

## 1. NET SALES BY ACTIVITY

Net sales by activity	2007	2006	Change at average exchange rates	Change at constant exchange rates
	In € million		In %	
Beauty	677.8	643.0	+5.4	+8.6
Group perfumes	281.9	268.9	+4.8	+8.0
<b>Total Group brands</b>	<b>959.7</b>	<b>911.9</b>	<b>+5.2</b>	<b>+8.4</b>
Distribution	47.8	55.3	-13.5	- 11.4
<b>Consolidated total</b>	<b>1,007.5</b>	<b>967.2</b>	<b>+4.2</b>	<b>+7.3</b>

### 1.1 Beauty

**The Beauty division posted solid gains of 8.6%<sup>(1)</sup>**, comparable to the growth rate of 2006. This was fueled by the very positive response to the revamped Make-up line and the launch of innovative Skin Care products that by exemplifying the expertise and seriousness of the Clarins brand, benefited to all products of the catalogue.

**Skin Care, despite fewer launches than in 2006, grew 5.3%<sup>(1)</sup>.**

**Face Care expanded 6.8%<sup>(1)</sup>** rewarding our will to constantly improve the existing formulas of our products, such as the *Truly Matte Skin Care* line and the new *Double Serum Generation 6*. Innovative launches like the *White Plus HP* line, *Décolleté* and *Neck Concentrate* and *Younger Longer Balm* also contributed to the gains in this segment.

With no major launches, **sales in the Body segment remain stable** thanks to the performance of *Stretch Mark Control*.

The reformulation of the **Suncare line** focused on body protectors after the renewal of facial products in 2006.

**The Feel Good Fragrance range gained 9.1%<sup>(1)</sup>**, boosted by the success of *Eau Ensoleillante* (*Sunshine Fragrance*), following *Eau Dynamisante* (*Invigorating Fragrance*) and *Eau Ressourçante* (*Rebalancing Fragrance*).

**ClarinsMen pursued sustained growth, advancing 10.7%<sup>(1)</sup>**, with very satisfactory sales for *Moisture Balm* and *Moisture Gel*, the full-year contribution of *Skin Difference* in France and the expansion of its launch in several international markets in 2007.

Finally, **Skin Care was enlarged by the launch of the internally developed brand, My Blend by Dr Olivier Courtin**. This new offering for highly personalized skin care was rolled out in September 2007 at six exclusive points of sale in the United States.

<sup>(1)</sup> At constant exchange rates

**Make-up posted an excellent performance, advancing 29.4%<sup>(1)</sup>** with a fully revamped line whose modern design, advanced technology of its formulas and ingenious perfectors attracted new selective customers from all age groups. As a result, the contribution of this segment to consolidated sales increased from 8.9% at the end of 2006 to 10.8%.

All make-up segments posted strong gains, particularly the **Eye range that surged 53.6%<sup>(1)</sup>** in response to robust sales by the *Colour Quartet for Eyes* of the *Instant Light* and *Golden Lights* collections and the new *Mascara Wonder Length*.

Despite the unfavourable comparison base reflecting the launch of *Instant Smooth* in 2006, the **Complexion range grew 22.7%<sup>(1)</sup>** following successful placements of *Instant Light Complexion Perfector*, *Truly Matte Foundation* and new *Compact*, *Shine Stopper* and *Bronzing Duo* powders.

**The Lip range expanded 15.1%<sup>(1)</sup>** on the continued success of the *Colour Quench Balms* and the launch in 2007 of new lipsticks *Rouge Appeal* and the *Instant Light Lip Perfector*.

## 1.2 Perfumes

**Perfumes grew 4.7%<sup>(1)</sup>**, gaining momentum in the second half as the decline in Distribution sales slowed. Increases by the Azzaro and Thierry Mugler brands were fueled by the classic *Angel*, *Azzaro Pour Homme* and *Chrome* and the success of *Now Women & Men* dedicated to younger adults.

**Thierry Mugler Parfums expanded 7.8%<sup>(1)</sup> despite the absence of major launches.**

*Angel* continued to perform well, benefiting from activities organized in conjunction with the 15<sup>th</sup> anniversary and a new *Angel/Alien* refill fountain (the "Source"<sup>(2)</sup>) rolled out in September 2007, providing a decisive boost to *Alien* that established its position as the brand's second top-selling women's fragrance.

Thierry Mugler Parfums also profited from the tactical launch of two fragrances with aquatic notes, *Eau de Star* and *Ice Men*.

**Azzaro Perfumes advanced 14.4%<sup>(1)</sup>.**

This growth was driven by the positive welcome to the *Azzaro Now* fragrance duo targeting the younger generation, a market unexplored by the brand. Azzaro Perfumes also benefited from robust growth by both *Azzaro Pour Homme* and *Chrome*, boosted by the rollout of *Chrome Legend* in the United States and Canada in the 2007 second half.

Building on its solid position among men's fragrances, Azzaro in the last quarter launched a line of skin care products for men under its own brand: *AzzaroLab SkinForce*. Distribution of this new line without parabens, and drawing on the regenerative virtues of trees, debuted in Canada and Russia and will be extended to other international markets in the year ahead.

**Distribution** sales retreated 11.4%<sup>(1)</sup>, adversely affected by a disappointing response to brands added to the portfolio of the US subsidiary in 2006. Excluding this impact, distribution sales increased 13.3%<sup>(1)</sup> on gains by L'Occitane and Hermès fragrances.

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<sup>(1)</sup> At constant exchange rates

<sup>(2)</sup> A perfume fountain that enables buyers to refill their empty bottles, an environmentally responsible and cost-effective gesture.

## 2. NET SALES BY GEOGRAPHICAL AREA

Net sales by region	2007	2006	Change at average exchange rates	Change at constant exchange rates
	In € million		In %	
Europe	648.6	615.2	+5.4	+5.8
North America	164.4	179.2	-8.2	-1.0
Asia	113.2	109.3	+3.5	+12.5
Other countries <sup>(1)</sup>	81.3	63.5	+28.1	+35.6
<b>Total</b>	<b>1,007.5</b>	<b>967.2</b>	<b>+4.2</b>	<b>+7.3</b>

### 2.1 Europe

The situation in Europe has improved in certain countries and notably France, but remained fragile in others where distributors continued to reduce inventories and the rebound in consumer spending has been lacklustre. **Clarins Group sales expanded 5.8%** <sup>(2)</sup>, with Beauty sustained in all markets by positive responses to the new make-up line while Perfumes benefited from the launch of new products and the good performance of the Group's classic brands.

**In France**, the successful launches of new products of the Beauty Division and Azzaro fueled growth of 4.5%. The year was marked by the opening of the first Clarins boutique in Paris on rue de Babylone, offering a prestigious showcase for the brand whose success was widely reported in the Beauty press. Finally, to support online sales, the Group has launched E-commerce websites for the Clarins, Mugler and Azzaro brands.

**In the United Kingdom**, characterized by competition of niche brands and aggressive promotional initiatives, growth of 2.8% <sup>(2)</sup> reflected the introduction of the new make-up line and robust sales by *Alien*. The Group continues to consolidate its already significant market shares in the skin care segment.

**Switzerland**, an important market for the Clarins brand, expanded 6.9% <sup>(2)</sup>. The policy pursued for several years of opening institutes (the most recent being the Spa of the Intercontinental Hotel of Geneva and the Institute opened in May 2007 in Vevey) has proved successful, generating growth by Clarins of 8.3% <sup>(2)</sup>.

Investments in **Italy** over the last two years and the success of Distribution brands enabled the Group to expand 8.1%.

Sales in **Germany** remained virtually unchanged in a challenging market affected by the increase in VAT. In addition, competition by other distribution networks remains fierce.

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

<sup>(2)</sup> At constant exchange rates

**Spain** has begun to experience the adverse affects of increasing concentration and efforts by distributors to reduce inventory levels similar to the trend in France of recent years. As a result, net sales advanced only 1.4%.

**In Russia**, sales were particularly robust, surging 66.2%<sup>(1)</sup>. Since the opening of a distribution subsidiary in Moscow in December 2005, Group brands have fully benefited growth in the number of doors of perfumery chains and Clarins is establishing its leadership for high-end skin care products.

## 2.2 North America

The challenging environment in **North America** both at the macroeconomic level and for the cosmetics market, and difficulties for Distribution activity in USA **resulted in a marginal decline in Group sales in this region (-1.0%<sup>(1)</sup>)**.

In the second half, activity in the **United States** registered a sharp turnaround, advancing 7.6%<sup>(1)</sup> compared with a decline of 18.1%<sup>(1)</sup> in the first six months. This trend was reflected in the performances of the Group's three brands. A major satisfaction of the period was the strong 7.8% performance on a sell-out basis of Clarins skin care products thanks to promotional initiatives and positive trends for Clarins boutiques that expanded 15.7 %<sup>(1)</sup>.

In 2007, net sales declined 4.0%<sup>(1)</sup> affected by the Distribution activity and the destocking policies of Department Stores.

Finally, as in France, the Group launched a website in the second half for online sales for the Clarins brand that offers significant growth potential.

**Canada** had an excellent year for the Beauty Division that gained 8.2%<sup>(1)</sup> primarily on make-up sales. The Group continues to expand distribution to upscale pharmacies. In contrast, the Perfume Division was negatively impacted by the high level of inventories of distributors and lacklustre Christmas sales.

In **Mexico**, the Group continues to benefit from its investments, the opening of new boutiques and the addition of new Distribution brands. As a result, sales grew 24.8%<sup>(1)</sup>.

## 2.3 Asia

**Expanding 12.5%<sup>(1)</sup>, growth trends in Asia remains buoyant** as Clarins benefited from particularly strong performances of certain markets such as South Korea, Hong Kong, Singapore and Malaysia.

The new whitening range of White Plus HP, enhanced by the exclusive HP Lock-Around® System providing additional protection against the over-production of melanin met with an excellent response as did *Truly Matte Skincare* and *Defining Eye Lift*.

**In Japan, where the Group grew 5.7%<sup>(1)</sup>**, the boutique opened in the new Tokyo shopping centre, Shin Maru Biru has increased the visibility of the Clarins brand.

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<sup>(1)</sup> At constant exchange rates

## 2.4 Other countries

Other countries continued to achieve strong growth, advancing 35.6%<sup>(1)</sup>.

Particularly strong gains were registered in the Middle East (notably for the Clarins brand that benefited from the arrival of major international perfumery chains and department stores) and in Latin America following the successful placement of the new make-up line with agents and the solid gains by Mugler and Azzaro perfumes.

## 3. 2007 RESULTS

During the 1<sup>st</sup> half, the operating margin decreased 2.9 points as expected. This decline was in line with our announced strategy to reinforce commercial efforts to boost sales of the Beauty Division. In the 2<sup>nd</sup> half, A&P expenses were maintained at the budgeted level. This strategy seems to be successful as 2007 sales are slightly above expectations. In consequence, the profitability will be less affected than in the first half.

Nevertheless, the operating margin for full year 2007 will be lower than in 2006.

## 4. 2008 FIRST-HALF LAUNCHES

Several skin care and make-up launches are scheduled for the first half and Azzaro and Thierry Mugler will pursue their initiatives to expand their activities:

- In skin care, the major launch of the first half will be the *HydraQuench Multi-Climates* range, pioneering a significant technological innovation in hydrating skin care for protection against harsh external factors.

Other launches will include:

- The *Super Restorative Tinted Creams* for women over 50 who want a single skin care product combining all the virtues of the Multi-Intensive line with Clarins' complexion perfecting expertise;
  - 3 new products for *ClarinsMen*: an *After Shave Energiser* and *Soother*, for daily skin care and a protective screen *UV Protection SPF 20* or *SPF 40* depending on the country;
  - *Pure Melt Cleansing Gel*, a new generation cleanser, a melting gel which transforms in just a few seconds into an ultra-fine oil, then a comforting milky emulsion to trap all traces of make-up and impurities;
  - *Body Shaping Supplement*, already launched in Asia in the 2007 first half, the first product of the range that can be mixed with one's regular skin care products for a "customized" treatment.
- In Make-up, Clarins will introduce a spring-summer collection, *Colour Fizz*. This will include *Fix' Make-Up* and *Double Fix' Mascara* that will enrich the Perfectors offering. And completing the renewal of the line initiated in 2007, the Group will launch a new lipstick line, *Joli Rouge*.

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<sup>(1)</sup> At constant exchange rates

- Loris Azzaro Perfumes will continue to roll out their skin care line for men *Azzarolab SkinForce* in France, Belgium, Switzerland and Italy, and expand the distribution of *Azzaro Now* and *Chrome Legend*.
- For Thierry Mugler, the highlight of the year will be the launch of *Thierry Mugler Beauty*. This will propose a range of beauty-artifices to metamorphose and sculpt one's personality that includes a make-up line, "*The Art of Metamorphosis*" associated with a collection of five fragrances "*Miroir, Miroir!*". Limited editions will be introduced to support the *Alien* and *A\*Men* lines. Finally the line of *Angel* ancillaries will be completely redesigned.

The new **Porsche Design** and **David Yurman** fragrances will not be unveiled until the 2008 second half.

<b>NET SALES BY QUARTER</b>				
<b>Consolidated data</b>	<b>2007</b>	<b>2006</b>	<b>Change at average exchange rates</b>	<b>Change at constant exchange rates</b>
	<b>In € million</b>		<b>In %</b>	
1 <sup>st</sup> quarter	240.4	238.3	+0.9	+3.7
2 <sup>nd</sup> quarter	254.2	236.3	+7.6	+10.2
<b>1<sup>st</sup> half</b>	<b>494.6</b>	<b>474.6</b>	<b>+4.2</b>	<b>+6.9</b>
3 <sup>rd</sup> quarter	231.8	214.7	+8.0	+10.8
4 <sup>th</sup> quarter	281.1	277.9	+1.2	+5.2
<b>2<sup>nd</sup> half</b>	<b>512.9</b>	<b>492.6</b>	<b>+4.1</b>	<b>+7.6</b>
<b>Total</b>	<b>1,007.5</b>	<b>967.2</b>	<b>+4.2</b>	<b>+7.3</b>

### Upcoming events

- **March 19, 2008:** 2007 results
- **April 24, 2008:** 2008 first-quarter net sales

**Tuesday, May 6, 2008**  
**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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