

March 19, 2008

LETTER TO SHAREHOLDERS 2007 RESULTS

Dear Shareholders,

Despite a difficult year, 2007 is in line with the announced targets.

The consolidated net sales of your Company exceeded the symbolic €1 billion benchmark to reach €1,007.5 million.

Our ambition is to exceed many new milestones in the future. Our objective is not simply to achieve rapid sales growth but rather lay solid foundations to ensure the long-term notoriety and positions of your brands through effective advertising and promotional investments. This strategy has already produced results as we outperformed the world cosmetics market overall this year with growth in net sales of 7.3%.

However, to support this strategy we have accepted a temporary reduction in profitability. As a result, operating margin declined 2.1 points in relation to 2006 to 11.1% on operating profit of €111.4 million. Furthermore, on top of the anticipated impact of these investments, results have been affected by the significant strengthening of the euro in recent years.

Cash flow registered excellent growth of 12.4% to €128.9 million, assuring resources to finance investments and growth in working capital requirements. In addition, a very positive net cash balance of €185.0 million and net financial income has further enhanced our ability to pursue internal or external growth projects.

The Management Board will ask the Combined General Meeting of May 6, 2008 to approve a dividend of €0.85, unchanged from last year⁽¹⁾.

Growth prospects for our industry in 2008 appear limited with a slowdown foreseen in the worldwide cosmetics market and expansion not expected to exceed 2% to 3% at constant exchange rates. In this environment, we will maintain our objective for sales growth of existing brands twice the rate of the market overall. This will be supplemented by additional sales from the continued rollout of My Blend, Kibio products to be distributed in several countries through our subsidiaries and, starting in the second half, new fragrances under the David Yurman and Porsche Design license agreements.

And having just signed a new license agreement with the internationally renowned Swarovski brand, the adventure continues.

Finally, we are very happy to welcome to our management team Philip Shearer, a well-known and respected leader in the cosmetics industry. He represents a valuable addition and will contribute to the continued expansion of your Group.

Christian Courtin-Clarins
Chairman of the Management Board

⁽¹⁾ Excluding the special dividend of €0.50 paid for fiscal 2006

Consolidated financial highlights	2007	2006	Change at average exchange rates	Change at constant exchange rates
	In € million		In %	
Net sales	1,007.5	967.2	+4.2	+7.3
Operating profit	111.4	127.3	-12.5	-4.1
Net profit - Group share	90.7	223.3	-59.4	-55.5
Net recurring income - Group share ⁽¹⁾	90.7	92.2	-1.7	+7.7
Cash flow	128.9	114.7	+12.4	-
Net cash	185.0	54.8	-	-
Stockholders' equity	823.9	780.7	+5.5	-
Capital expenditures	74.0	56.1	+31.9	-
Change in working capital	13.8	6.5	-	-
Earnings per share in € ⁽¹⁾	2.34	2.40	-2.5	-
Dividend per share in € ⁽²⁾	0.85	0.85	-	-

1. NET SALES⁽³⁾

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
Total Group brands	959.7	911.9	+5.2	+8.4
Distribution	47.8	55.3	-13.5	-11.4
Total	1,007.5	967.2	+4.2	+7.3

1.1 Net sales by activity

The Beauty division posted solid gains of 8.6%⁽⁴⁾ comparable to the performance in 2006.

Skin care advanced 5.3%⁽⁴⁾, despite fewer launches than in 2006. This expansion was driven by successes in the Face Skin Care range through innovative launches such as *Double Serum Generation 6* and *Younger Longer Balm*, the new formulation of the *Truly Matte Skin Care* line, sustained growth in the *Feel Good Fragrance* range from gains by the *Eau Ensoleillante (Sunshine Fragrance)* and robust growth by *ClarinsMen*.

To further develop the skin care activity, Clarins Group launched a new premium line for highly personalized skin care treatment: **My Blend by Dr Olivier Courtin**. Distributed since September of 2007 in six exclusive points of sale in United States, the impact of this new brand on Group sales was not significant in 2007.

⁽¹⁾ Excluding the fair value adjustment of L'Occitane financial instruments

⁽²⁾ Excluding the special dividend of €0.50 paid for fiscal 2006

⁽³⁾ For a more detailed presentation, refer to the Letter to Shareholders of January 31, 2008

⁽⁴⁾ At constant exchange rates

Make-up posted excellent growth of 29.4%⁽¹⁾ on the success of its fully revamped line whose modern design, advanced technology of its formulas and ingenious perfectors attracted new selective customers from all age groups.

Perfumes grew 4.7%⁽¹⁾.

Thierry Mugler Parfums expanded 7.8%⁽¹⁾ despite the absence of major launches. *Angel* continued to perform well, benefiting from activities organized in conjunction with its 15th anniversary and a new *Angel/Alien* refill fountain (the "Source"⁽²⁾). Thierry Mugler Parfums also profited from tactical launches of two fragrances, *Eau de Star* and *Ice Men*.

Azzaro Perfumes advanced 14.4%⁽¹⁾, following a very positive response to the *Azzaro Now* duo fragrance and strong growth by *Azzaro Pour Homme* and *Chrome* (that received a boost from *Chrome Legend* in United States and Canada in the 2007 2nd half). Finally, in the last quarter Azzaro launched a line of skin care products for men under its own brand name, *AzzaroLab SkinForce*. Debuting in Canada and Russia, distribution will be extended to other international markets in 2008.

Distribution retreated 11.4%⁽¹⁾, 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%⁽¹⁾ on gains by L'Occitane and Hermès fragrances.

1.2 Net sales by geographical area

Net sales by geographical area	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 ⁽³⁾	81.3	63.5	+28.1	+35.6
Total	1,007.5	967.2	+4.2	+7.3

The situation **in Europe** improved in certain countries and notably in France, but remains fragile in others where distributors continue to reduce inventories and the rebound in consumer spending has been lacklustre. **Clarins Group sales expanded 5.8%**⁽¹⁾, 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 brands' classics.

The challenging environment in **North America** both at the macroeconomic level and for the cosmetics market and difficulties for the Distribution activity in USA **resulted in a marginal decline in Group sales in this region (-1.0%)**⁽¹⁾. As a result, net sales in the US declined 4.0%⁽¹⁾ in 2007 though Clarins skin care products performed well on a sell-out basis (+7.8%) while in Canada the Beauty Division registered an excellent year.

⁽¹⁾ At constant exchange rates

⁽²⁾ A perfume fountain that enables buyers to refill their empty bottles, an environmentally responsible and cost-effective

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

Expanding 12.5% ⁽¹⁾, growth trends in Asia remain buoyant. Notable performances by *Defining Eye Lift* and the *White Plus HP* and *Truly Matte Skin Care* lines contributed to robust growth by Clarins in such markets as South Korea, Hong Kong, Singapore and Malaysia.

In Japan, where the Group grew 5.7%⁽¹⁾, a boutique opened in the new Tokyo shopping centre, Shin Maru Biru has increased visibility for the Clarins brand.

Other countries continue to achieve strong growth, advancing 35.6%⁽¹⁾.

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 in Latin America following the successful placement of the new make-up line with agents and the solid gains by Mugler and Azzaro perfumes.

2. CONSOLIDATED RESULTS

2.1 Operating profit

Operating profit declined 12.5% to €11.4 million reflecting significant marketing and commercial efforts to support sales and the long-term positions of Group brands. **The strengthening of the euro** had a negative translation effect of €10.7 million on operating profit (whereas at constant exchange rates operating profit declined only 4.1%) and €30.1 million on net sales.

The Clarins brand benefited from significant investments for special events and promotions, new general tester units, the renovation of stands and the opening of boutiques. In addition, its website, along with those of Azzaro and Thierry Mugler were completely redesigned and now include a platform for online sales. These initiatives, accompanied by the strengthening of sales teams in certain countries resulted in **increased selling expenses** (up as percentage of sales from 47.7% to 48.5%).

Manufacturing costs rose as a percentage of sales from 29.1% to 30.6% primarily in response to increased production and the distribution of samples in connection with promotional campaigns, the impact of foreign exchange trends and a less favourable product mix resulting from the increased share of make-up in the Beauty range.

At the same time, tight control over non-productive costs reduced **administrative expenses** as a percentage of sales from 10.0% at the end of 2006 to 9.8%.

Other non-recurring costs concerned primarily Group restructuring measures to improve the profitability of its subsidiary in the US and relaunch its sales activity.

Finally, after a period of significant investments in manufacturing assets by the Group in recent years, allowances for depreciation increased 17.6% from €30.6 million to €36.0 million.

After taking into account net changes in provisions, **earnings before interest tax, depreciation and amortization (EBITDA) declined only 2.2% to €149.2 million.**

⁽¹⁾ At constant exchange rates

Operating profit by activity	2007		2006		At average exchange rates	At constant exchange rates
	In € million	Margin ⁽¹⁾	In € million	Margin ⁽¹⁾	In %	
Beauty	80.6	11.9%	96.8	15.1%	-16.7	-10.2
Perfumes	30.8	9.3%	30.5	9.4%	+0.9	+15.3
Total	111.4	11.1%	127.3	13.2%	-12.5	-4.1

The Beauty Division's decline in operating profitability reflects commercial investments to support Skin Care and Make-up sales, an increased share of make-up in the product mix and the My Blend launch. The Division's operating margin declined in consequence from 15.1% to 11.9%.

In contrast, in the absence of major launches with the exception of *Azzaro Now* and *Eau de Star* by Thierry Mugler, the **Perfume Division was successful in maintaining the operating margin at 9.3%** in an extremely challenging market of intense promotional activity.

2.2 Net profit - Group share

Net profit - Group share was €0.7 million, down 59.4%, with a net margin of 9.0%.

In 2006 net profit included extraordinary income of €31.1 million from the fair value adjustment of L'Occitane International financial assets. Excluding the impact of this item, **at average exchange rates net profit - Group share declined 1.7% and at constant exchange rates grew 7.7%.**

The significantly lower decline in net recurring income compared with operating profit (-1.7% versus -12.5%) reflects the following items:

- **Net cash balances that remained largely positive** throughout the year contributed to **net financial income of €2.1 million**, up from €0.1 million at December 31, 2006 (excluding the remeasurement of the L'Occitane financial assets);
- **Foreign exchange hedges** generated a €0.8 million gain versus a loss of €1.5 million in 2006;
- **Net income in Associated companies** totalled €2.2 million versus €1.8 million in the prior year in response to the improved earnings performance of Trimex, the Australian agent of Clarins Group.

3. BALANCE SHEET AND CASH FLOW

Given the marginal decline in EBITDA of 2.2%, **cash flow increased 12.4% to €128.9 million** benefiting from net financial income and positive foreign exchange gains, and an increase in net income from associates.

Working capital requirements increased by €3.8 million following €6.5 million in 2006.

⁽¹⁾ Operating profit/Net sales

Proceeds from the sale of fixed assets generated €135.4 million. This included €133.3 million from the partial sale of the stake in L'Occitane.

Investments in property, plant and equipment totalled €60.7 million versus €48.8 million at the end of 2006. This increase concerns investments relating to the expansion and compliance measures for the Pontoise site as well as renovations and installations for stands for the Clarins brand in department stores and new make-up general tester units.

The increase in **acquisitions of intangible assets** largely reflects guaranteed minimum royalties payable to Porsche Design and David Yurman under license agreements signed in 2006 that the Group recognized as a fixed asset in strict compliance with IFRS. The amount recorded under assets was €5.9 million and corresponds to the commitment of the Group for the next five years. It will be subject to annual impairment test like other intangible assets of the Group.

Financial investments of €2.8 million represented a partial payment for the second tranche of the Kibio convertible bond issue and a subscription of capital in joint ventures with L'Occitane in South Korea and Mexico.

Growth in cash flow and proceeds from the partial sale of the stake in L'Occitane contributed to **free cash flow of €130.2 million** that has strengthened even more Clarins Group's balance sheet.

The Group's net cash balance on this basis further improved to €185.0 million compared with €54.8 million at the end of 2006.

Finally, the Group has a **solid balance sheet with stockholders' equity of €23.9 million before distribution of profit.**

4. COMBINED GENERAL MEETING

A combined General Meeting will be held on **Tuesday, May 6, 2008 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 **dividend of €0.85 per share** unchanged from last year (excluding the special dividend of €0.50 paid for fiscal 2006). The proposed date of payment is June 9, 2008.

Upcoming events

- **April 24, 2008:** First-quarter net sales
- **July 28, 2008:** First-half net sales



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AZZARO
PARIS

Thierry Mugler

myblend
BY DR OLIVIER COURTIN

CONSOLIDATED STATEMENT OF INCOME

In € thousand	12/31/2007	12/31/2006	Change ⁽¹⁾	12/31/2005
NET SALES	1,007,521	967,183	4.2%	998,204
Manufacturing costs	(308,148)	(281,876)	9.3%	(316,872)
Selling expenses	(488,895)	(461,649)	5.9%	(458,357)
Administrative expenses	(98,587)	(96,477)	2.2%	(95,544)
OPERATING INCOME BEFORE NON-RECURRING ITEMS	111,891	127,181	(12.0%)	127,431
Other operating incomes (expenses)	(480)	150	N/S	(1,068)
Depreciation of trademarks and goodwill	0	0		0
TOTAL OPERATING EXPENSES	(896,110)	(839,852)	6.7%	(871,841)
OPERATING INCOME	111,411	127,331	(12.5%)	126,363
Cash and cash equivalents incomes	9,301	5,581	66.7%	4,148
Debt cost	(5,924)	(4,989)	18.7%	(4,863)
NET DEBT COST	3,377	592	N/S	(715)
Other financial incomes (expenses)	(1,292)	123,088	N/S	10,659
Gain (loss) on exchange (net)	770	(1,535)	(150.2%)	(1,639)
Provision for income taxes	(25,699)	(27,721)	(7.3%)	(39,607)
NET INCOME OF FULLY CONSOLIDATED COMPANIES	88,567	221,755	(60.1%)	95,061
Group's equity in net income (losses) of associated companies	2,179	1,838	18.5%	1,460
Net result of discontinued activities	0	0		327
NET INCOME	90,746	223,593	(59.4%)	96,848
Group share	90,661	223,327	(59.4%)	96,742
Minority interests	85	266	(68.1%)	106
Weighted average number of shares outstanding during the period	38,724,206	38,440,559		37,856,996
EARNING PER SHARE	€2.34	€5.81		€2.56
FULLY DILUTED EARNING PER SHARE	€2.30	€5.75		€2.53
RECURRING NET INCOME GROUP SHARE ⁽²⁾	90,661	92,236	(1.7%)	96,742
RECURRING EARNING PER SHARE ⁽²⁾	€2.34	€2.40		€2.56

⁽¹⁾ Based on average exchange rates

⁽²⁾ Excluding the fair value adjustment of L'Occitane International financial instruments 2006 net impact

Balance sheet - Assets

	12/31/2007	12/31/2006	12/31/2005
In € thousand			
NON CURRENT ASSETS			
Goodwill	19,678	19,678	19,681
Intangible assets	86,562	75,389	69,322
Property, plant and equipment	198,862	178,743	163,258
Equity - accounted investments	12,536	11,564	10,498
Shareholdings in non-consolidated companies	52,235	33,725	22,505
Other financial non-current assets	13,704	162,068	36,913
Deferred income taxes	6,007	6,796	7,236
TOTAL NON CURRENT ASSETS	389,584	487,963	329,413
CURRENT ASSETS			
Inventories	151,429	154,812	155,288
Accounts and notes receivable-trade	262,635	254,975	289,320
Other receivables	27,393	31,465	39,451
Current income taxes	12,394	11,211	4,413
Other financial assets	9,002	5,780	0
Cash and cash equivalents	319,705	231,284	217,164
Prepayments	83,907	87,123	71,479
TOTAL CURRENT ASSETS	866,465	776,650	777,115
TOTAL ASSETS	1,256,049	1,264,613	1,106,528

Balance sheet - Liabilities and stockholders' equity

	12/31/2007	12/31/2006	12/31/2005
In € thousand			
STOCKHOLDERS' EQUITY			
Common stock	326,038	326,038	324,514
Additional paid-in capital	4,975	4,975	1,117
Retained earnings	587,175	548,389	357,707
Translation reserve	(30,126)	(18,511)	(10,555)
STOCKHOLDERS' EQUITY INCLUDING TREASURY STOCKS	888,062	860,891	672,783
Treasury stocks	(64,142)	(80,199)	(87,365)
TOTAL STOCKHOLDERS' EQUITY EXCLUDING TREASURY STOCKS	823,920	780,692	585,418
Minority interests in net asset of consolidated subsidiaries	1,159	1,069	933
TOTAL STOCKHOLDERS' EQUITY	825,079	781,761	586,351
NON CURRENT LIABILITIES			
Provision for contingency	18,322	21,062	26,811
Long term debts	40,542	21,256	22,333
Employee profit sharing plan	9,837	9,921	10,451
Deferred income taxes	12,495	7,785	9,340
CURRENT LIABILITIES	349,774	422,828	451,242
Provision for contingency	19,095	21,200	23,357
Current income taxes	8,794	13,896	14,692
Short-term borrowings	62,508	124,049	135,582
Other financial liabilities	200	462	610
Accounts and notes payable - trade	123,147	128,850	128,776
Other current liabilities	114,230	113,095	128,281
Bank overdrafts	21,800	21,276	19,944
TOTAL DEBTS	430,970	482,852	520,177
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	1,256,049	1,264,613	1,106,528

CONSOLIDATED STATEMENT OF CASH FLOWS

In € thousand	12/31/2007	12/31/2006	12/31/2005
Cash flows from operating activities			
Net income	90,661	223,327	96,742
Depreciation of property, plant and equipment	33,892	29,266	30,348
Amortization of intangible assets and other non-current assets	2,093	1,278	4,651
Fair value adjustments of financial instruments	0	(133,960)	(7,739)
Provision for loss on current assets	3,773	(228)	(366)
Increase (decrease) in non current provision for contingency	(1,920)	(5,117)	(7,554)
Minority interests in consolidated subsidiaries' net income	85	266	138
Group's equity in net (income) or losses of associated companies, net of dividends received	85	(171)	(177)
(Gain) loss on sale of fixed assets	220	8	6
Cash flows from operating activities	128,889	114,669	116,049
(Increase) decrease in net current working capital	(13,778)	(6,502)	(17,004)
Net cash provided by operating activities	115,111	108,167	99,045
Cash flows from investing activities			
Proceeds from sale of fixed assets	135,420	309	682
Capital expenditures	(60,712)	(48,780)	(41,733)
Purchases of intangible assets	(13,294)	(7,317)	(2,806)
Acquisitions of subsidiaries, net of cash acquired	(2,836)	(1,000)	(768)
Other investing activities	(88)	(41)	244
Net cash used in investing activities	58,490	(56,829)	(44,381)
Cash flows from financing activities			
Proceeds from issuance of long-term debt	23,745	4,169	468
Decrease in long-term debt	(3,788)	(5,188)	(65,090)
Increase (decrease) in short-term borrowings	(62,569)	(11,422)	22,648
Dividends paid by the Parent Company	(52,311)	(32,695)	(26,070)
Sale (purchase) of Treasury stock	16,231	7,166	6,304
Loans to associated companies	1,362	(81)	1,699
Capital increase resulting from exercise of stock options	0	5,382	8,619
Other financing activities	(278)	(1,335)	1,530
Net cash provided by financing activities	(77,608)	(34,004)	(49,892)
Effect of exchange rate changes on cash	(8,096)	(4,546)	6,171
Net change in cash and cash equivalents	87,897	12,788	10,943
Cash and cash equivalents at beginning of year (1)	210,008	197,220	186,277
Cash and cash equivalents at end of year (1)	297,905	210,008	197,220

(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 31,2004	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									
2005 change in translation reserve					11,642		11,642	(103)	11,539
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									
2006 change in translation reserve					(7,956)		(7,956)	0	(7,956)
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
Change in capital									
Exercise of stock options	0						0		0
Change in Treasury stocks						16,057	16,057		16,057
Bonus share plan				262			262		262
2007 Net profit				90,661			90,661	85	90,746
Dividends for 2006				(52,311)			(52,311)		(52,311)
Results recorded through stockholders' equity									
Gain/Loss on Treasury stocks' sales				174			174		174
2007 change in translation reserve					(11,615)		(11,615)	5	(11,610)
Balance as of December 31,2007	40,754,727	326,038	4,975	587,175	(30,126)	(64,142)	823,920	1,159	825,079