FINANCIERE AGACHE

Translation of the French “Rapport financier annuel”
Fiscal year ended December 31, 2018

Contents

This document is a free translation into English of the original French "Rapport financier annuel", hereafter referred to as the "Annual Financial Report". It is not a binding document. In the event of a conflict in interpretation, reference should be made to the French version, which is the authentic text.

Executive and Supervisory Bodies, Statutory Auditors as of December 31, 2018

BOARD OF DIRECTORS

Florian OLLIVIER
Chairman and Chief Executive Officer

Nicolas BAZIRE
Group Managing Director
Representative of Groupe Arnault SEDCS

Pierre DE ANDREA
Representative of Invry SAS [(a)(b)]

Pierre DEHEN
Representative of GA Placements SA

Lord POWELL of BAYSWATER

STATUTORY AUDITORS

ERNST & YOUNG et Autres
represented by Jeanne Boillet

MAZARS
represented by Simon Beillevaire

(a) Co-opted by the Board of Directors at its meeting held on September 26, 2018.
(b) Renewal proposed at the Shareholders' Meeting of May 22, 2019.

Management Report of the Board of Directors – Financière Agache group

1. THE FINANCIÈRE AGACHE BUSINESS MODEL

The Financière Agache group helps its Maisons grow over the long term, based on respect for their specific strengths and individuality, underpinned by common values and a shared business model.

1. Business overview

The Financière Agache group operates simultaneously, through its Maisons, in the following luxury sectors:

Wines and Spirits: Based in Champagne, Bordeaux and other renowned wine-growing regions, the Group's Maisons – some of which are hundreds of years old – all have their own unique character, backed by a shared culture of excellence. The Group's Wines and Spirits businesses are divided between the Champagne and Wines segment and the Cognac and Spirits segment. This business group focuses on growth in high-end market segments through a powerful, agile international distribution network. The Financière Agache group is the world leader in cognac, with Hennessy, and in champagne, with an outstanding portfolio of brands and complementary product ranges. It also produces high-quality still and sparkling wines from around the world.

Fashion and Leather Goods: The Group includes established Maisons with their own unique heritage and more recent brands with strong potential. Whether they are part of haute couture or luxury fashion, the Financière Agache group's Maisons have based their success on the quality, authenticity and originality of their designs, created by talented, renowned designers. All the Group's Maisons are focused on the creativity of their collections, building on their iconic, timeless lines, achieving excellence in their retail networks and strengthening their online presence, while maintaining their identity.

Perfumes and Cosmetics: The Financière Agache group is a key player in the perfume, makeup and skincare sector, with a portfolio of world-famous established names as well as younger brands with a promising future. Its Perfumes and Cosmetics business group boasts exceptional momentum, driven by growing and securing the long-term future of its flagship lines as well as boldly developing new products. The Maisons cultivate their individuality, a differentiating factor for their followers in a highly competitive global market. At the same time, they are all driven by the same values: the pursuit of excellence, creativity, innovation and complete control of their brand image.

Watches and Jewelry: The Maisons in Watches and Jewelry – the Financière Agache group's youngest business group – operate in the high-quality watchmaking, jewelry and high jewelry sectors. It features some of the most dynamic brands on the market, positioned to complement each other's strengths. These Maisons rely on their outstanding expertise, creativity and innovation to surprise their customers all over the world and respond to their aspirations.

Selective Retailing: The Group's Selective Retailing brands all pursue a single objective: transforming shopping into a unique experience. From elegant interior design to a specialist selection of high-end products and services, combined with personalized relationships, customers are the focus of their attention on a daily basis. Operating all over the world, the Maisons are active in two spheres: selective retail and travel retail (selling luxury goods to international travelers).

Other activities: The Maisons in this business group are all ambassadors for culture and a certain art de vivre that is emblematic of the Financière Agache group. This approach is taken by Maisons including the Les Echos group, which – in addition to Les Echos, the leading daily financial newspaper in France – owns several business and arts titles; the Royal Van Lent shipyard, which builds and markets custom-designed yachts under the prestigious Feadship name; and the exceptional Cheval Blanc hotels, which operate worldwide.

2. Group values

In its quest for excellence, there are three fundamental values that drive the Financière Agache group's performance and ensure its long-term future. These are shared by everyone involved at the Group, and inspire and guide their actions. They are one of its Maisons' keys to success, anchoring them in the modern world and the society in which they operate.

Being creative and innovative: Creativity and innovation are part of the Group's DNA; throughout the years, they have been the keys to the Maisons' success and the basis of their solid reputations. These fundamental values of creativity and innovation are pursued in tandem by the Maisons as they focus on achieving the ideal balance between continually renewing their offer while resolutely looking to the future, always respecting their unique heritage.

Delivering excellence: Within the Group, quality can never be compromised. Because the Maisons embody everything that is most noble and accomplished in the world of fine craftsmanship, they pay extremely close attention to detail and strive for perfection: from products to services, it is in this quest for excellence that the Group differentiates itself.

Cultivating an entrepreneurial spirit: The Group's agile, decentralized structure fosters efficiency and responsiveness. It encourages individuals to take initiative by giving everyone a significant level of responsibility. The entrepreneurial spirit promoted by the Group makes risk-taking easier and encourages perseverance. It requires a pragmatic approach and the ability to mobilize staff towards achieving ambitious goals.

3. Operating model

The Financière Agache group's operating model is based on the following six pillars:

Decentralized organization: The structure and operating principles adopted ensure that Maisons are both autonomous and responsive. As a result, they are able to build close relationships with their customers, make fast, effective and appropriate decisions, and motivate Group employees for the long term by encouraging them to take an entrepreneurial approach.

Internal growth: The Group prioritizes internal growth and is committed to developing its Maisons, and encouraging and protecting their creativity. Staff play a critical role in a model of this kind, so supporting them in their career and encouraging them to exceed their own expectations is essential.

Vertical integration: Designed to cultivate excellence both up- and downstream, vertical integration ensures control of every stage of the value chain, from sourcing to production facilities and selective retailing. It also guarantees strict control of Maisons' brand image.

Creating synergies: Resources are pooled at Group level to create intelligent synergies while respecting each Maison's independence and autonomy. Financière Agache's shared strength as a Group is used to benefit each Maison individually.

Securing expertise for the long term: The Maisons that make up the Financière Agache group cultivate a long-term vision. To protect their identity and excellence, the Group and its Maisons have implemented numerous tools to pass on expertise and promote artisanal and creative skills in the next generation.

A complementary mix of activities and geographic locations: The Group has equipped itself to grow steadily by balancing its activities and their geographical spread, helping to secure its position in the face of economic fluctuations.

This operating model is key to the Group's long-term success built on profitable growth, sustainability and a commitment to excellence.

Management Report of the Board of Directors – Financière Agache Group

2. BUSINESS OVERVIEW, HIGHLIGHTS AND OUTLOOK

1. Wines and Spirits

In 2018, revenue for the Wines and Spirits business group amounted to 5,143 million euros and represented 11% of the Financière Agache group's total revenue. Champagne and wines made up 46% of this revenue, while cognacs and spirits accounted for 54%.

1.1. CHAMPAGNE AND WINES

1.1.1. Champagne and Wine brands

The Group produces and sells a very broad range of high-quality champagnes. Beyond the Champagne region, the Group develops and distributes a range of high-end still and sparkling wines produced in nine countries spanning four continents: France, Spain, the United States (California), Argentina, Brazil, Australia, New Zealand, India and China.

Founded in 1743, **Moët & Chandon** is the Champagne region's leading wine grower, producer and exporter, renowned for its exceptional heritage and pioneering spirit. Steeped in tradition with its iconic *Moët Impérial* blend and its legendary vintage champagnes while garnering a considerable following for its rosé champagnes, the Maison is also squarely positioned as an innovator, having broken new ground in particular with *Moët Ice Impérial*, the very first champagne designed to be served over ice in large glasses to reveal all of its subtle nuances.

The prestige brand **Dom Pérignon**, which only releases vintage champagnes, carries the legacy of its namesake, the Benedictine monk Dom Pierre Pérignon, universally regarded as the spiritual father of champagne. The first vintage of Dom Pérignon was produced by Moët & Chandon in 1936.

Ranking second in the industry, **Veuve Clicquot** embodies a bold, chic art de vivre cultivated by the Maison since it was founded in 1772. The Maison's iconic champagnes include *Brut Carte Jaune*; *Veuve Clicquot Rosé*, the first blended rosé champagne, created 200 years ago; the prestige cuvée *La Grande Dame*, an exclusive blend of eight of Veuve Clicquot's classic grands crus; and the *Extra Brut Extra Old* premium cuvée launched in 2017, which is blended exclusively from select reserve wines.

Ruinart, founded in 1729, is the oldest of the champagne houses. Each of its cuvées expresses the distinctive personality of chardonnay, the Maison's dominant grape variety. **Krug**, established in 1843 and acquired by the Group in January 1999, is the first champagne house to create an exclusively prestige cuvée every year: *Grande Cuvée*. **Mercier**, which was founded by Eugène Mercier in 1858, has always had the aim of creating a champagne for all occasions, which is sold mainly in the French market.

The Group's portfolio of wines aside from champagne includes a number of prestigious New World and French appellations.

The Group's wineries from the New World are **Cape Mentelle** in Australia, **Cloudy Bay** in New Zealand, **Newton Vineyard** in California, **Terrazas de Los Andes** and **Cheval des Andes** in Argentina, **Ao Yun** in China, **Numanthia Termes** in Spain (founded in 1998 and acquired by the Group in 2008), and **Colgin Cellars**, a winery founded by Ann Colgin 25 years ago in the heart of Napa Valley and acquired by the Group in 2017. The **Chandon** brand (created in 1959 in Argentina) includes the Moët Hennessy sparkling wines developed in California, Argentina, Brazil, Australia, India and China by Chandon Estates.

In France, since 1999 the Group has owned **Château d'Yquem**, the most celebrated Sauternes and the only Premier Cru Supérieur in the 1855 classification. In 2009, the Group purchased a 50% stake in the prestigious winery **Château Cheval Blanc**, Premier Grand Cru classé A Saint-Émilion. Lastly, in 2014, the Group acquired **Domaine du Clos des Lambrays**, one of the oldest and most prestigious Burgundy vineyards, and the premier Grand Cru of the Côte de Nuits.

1.1.2. Competitive position

In 2018, shipments of the Group's champagne brands were down 3% in volume, while shipments from the Champagne region as a whole were down 2% (source: CIVC). The Group's market share was 21.7% of the total shipments from the region, compared to 21.9% in 2017.

Champagne shipments, for the whole Champagne region, break down as follows:

(in millions of bottles and percentage)	2018			2017			2016		
	Volumes		Market share	Volumes		Market share	Volumes		Market share
	Region	Group	*(%)*	Region	Group	*(%)*	Region	Group	*(%)*
France	147.0	8.7	5.9	153.5	9.9	6.4	157.7	9.8	6.2
Export	154.9	56.7	36.6	153.9	57.3	37.3	148.4	52.7	35.6
TOTAL	**301.9**	**65.4**	**21.7**	**307.4**	**67.2**	**21.9**	**306.1**	**62.5**	**20.4**

(Source: Comité Interprofessionnel des Vins de Champagne – CIVC).

The geographic breakdown of the Group's champagne sales in 2018 is as follows (as a percentage of total sales expressed in number of bottles):

(as %)	2018	2017	2016
Germany	5	5	5
United Kingdom	7	8	9
United States	19	19	19
Italy	4	4	4
Japan	10	10	9
Australia	5	5	5
Other	36	34	34
Total export	**87**	**85**	**85**
France	13	15	15
TOTAL	**100**	**100**	**100**

1.1.3. The champagne production method

The Champagne appellation covers a defined geographic area classified A.O.C. (Appellation d'origine contrôlée), which covers the 34,000 hectares that can be legally used for production. There are essentially three main types of grape varietals used in the production of champagne: chardonnay, pinot noir and pinot meunier.

In addition to its effervescence, the primary characteristic of champagne is that it is the result of blending wines from different years and/or different varieties and land plots. The best brands are distinguished by their masterful blend and consistent quality, achieved thanks to the talent of their wine experts.

Weather conditions significantly influence the grape harvest from one year to the next. The production of champagne also requires aging in cellars for two years or more for premium, vintage and/or prestige cuvées. To protect themselves against crop variations and manage fluctuations in demand, but also to ensure consistent quality year after year, the Group's champagne houses regularly adjust the quantities available for sale and keep reserve wines in stock, mainly in storage tanks. As maturation times vary, the Group constantly maintains significant champagne inventories in its cellars. An average of 200 million bottles are stored in the Group's cellars in Champagne, equivalent to about three years of sales; in addition to this bottled inventory, the Group has wines still in storage tanks waiting to be drawn (equivalent to 89 million bottles), including the quality reserve withheld from sale in accordance with applicable industry rules (equivalent to 10 million bottles).

The making of champagne involves extremely rigorous production processes, in order to ensure absolute consistency in champagne quality from year to year. Moët & Chandon, whose historic production site is located in Epernay, has expanded its capacity with its new Mont Aigu site in Oiry. Located not far from one of the Maison's pressing houses, the site was constructed to very precise specifications in order to perpetuate and elevate Moët & Chandon's ancestral expertise. It also implements sustainable development principles, with landscape design features to achieve harmony with its surroundings as well as reduced water and electricity consumption. The Mont Aigu site's fermentation room, bottling line, cellars, disgorging area and packaging workshop now supplement the production capacity of Moët & Chandon's historic facilities in Épernay. The historic production sites of Veuve Clicquot, Ruinart and Krug are in Reims.

1.1.4. Grape supply sources and subcontracting

The Financière Agache group owns just over 1,700 hectares under production, which provide slightly more than 20% of its annual needs. In addition, the Group's Maisons purchase grapes and wines from wine growers and cooperatives on the basis of multi-year agreements; the largest supplier of grapes and wines represents less than 10% of total supplies for the Group's Maisons.

Since 1996, industry agreements have established a qualitative reserve in order to cope with variable harvests. The surplus inventories stockpiled this way can be sold in years with a poor harvest. Each year, the INAO, which is the French governing body for appellations of origin, sets the maximum harvest that can be made into wine and sold under the Champagne appellation, as well as the ceiling known as the PLC (Plafond Limite de Classement), the quantity by which the appellation's marketable yield can be exceeded. For the 2018 harvest, the marketable yield for the Champagne appellation was set at 10,800 kg/ha and the PLC at 4,700 kg/ha. The maximum level of the stockpiled reserve is set at 8,000 kg/ha.

The price paid for each kilogram of grapes in the 2018 harvest ranged between 5.72 euros and 6.55 euros depending on the vineyard, an average increase of 2.5% compared to the 2017 harvest. Premiums may be paid on top of the basic price in line with the special conditions agreed under each partnership (including for sustainable winegrowing).

Dry materials (bottles, corks, etc.) and all other elements representing containers or packaging are purchased from non-Group suppliers. In 2018, the champagne houses used subcontractors for about 28 million euros of services, notably pressing, handling and storing bottles.

1.2. COGNAC AND SPIRITS

1.2.1. Cognac and Spirits brands

The Group holds the most powerful brand in the cognac sector with **Hennessy**, founded by Richard Hennessy in 1765. Historically, the brand was most prominent in the Irish and British markets, but Hennessy rapidly expanded its presence in Asia, which represented nearly 30% of its shipments as early as 1925. The brand became the world cognac leader in 1890. Hennessy created *X.O (Extra Old)* in 1870, and since then it has developed a range of high-end cognac for which it is highly renowned.

In 2005, the Group acquired The Glenmorangie Company, which owns the single malt whisky brands **Glenmorangie**, distilled in northeastern Scotland in Europe's tallest stills, and **Ardbeg**, distilled on the Isle of Islay in the southern Hebrides.

Since 2007, the Group has owned the luxury vodka **Belvedere**, founded in 1993 in order to bring a luxury vodka for connoisseurs to the American market. It is made at the Polmos Zyrardów distillery in Poland, which was founded in 1910.

Since 2017, **Volcán De Mi Tierra** tequila, which was created in collaboration with the Mexican entrepreneur Don Juan Gallardo Thurlow, has been available at a limited number of points of sale in the United States and Mexico.

In 2017, the Group acquired **Woodinville Whiskey Company**, which was established in 2010 by Orlin Sorensen and Brett Carlile and is the largest craft whiskey distillery in Washington State.

1.2.2. Competitive position

In 2018, the volumes shipped from the Cognac region were up 4% from 2017 (source: Bureau national interprofessionnel du cognac – BNIC), while volumes of Hennessy shipped increased slightly. Hennessy's market share was 47%, compared to 48.6% in 2017. The company is the world leader in cognac, with particularly strong positions in the United States and Asia.

The leading geographic markets for cognac, both for the industry and for the Group, on the basis of shipments in number of bottles, excluding bulk, are as follows:

	2018			**2017**			**2016**		
	Volumes		**Market share**	**Volumes**		**Market share**	**Volumes**		**Market share**
(in millions of bottles and percentage)	**Region**	**Group**	*(%)*	**Region**	**Group**	*(%)*	**Region**	**Group**	*(%)*
France	4.0	0.8	19.1	3.5	0.7	20.1	3.5	0.4	11.2
Europe (excluding France)	33.3	8.1	24.3	35.3	8.4	23.9	33.1	8.2	24.8
United States	86.9	53.6	61.6	82.4	53.4	64.8	73.9	48.0	65.0
Asia	61.9	22.9	36.9	58.1	23.0	39.7	51.8	22.3	43.0
Other markets	14.5	8.9	61.7	14.1	8.4	59.8	13.1	7.8	59.7
TOTAL	**200.6**	**94.2**	**47.0**	**193.3**	**94.0**	**48.6**	**175.5**	**86.7**	**49.4**

The geographic breakdown of Group cognac sales, as a percentage of total sales expressed in number of bottles, is as follows:

(as %)	**2018**	**2017**	**2016**
United States	56	55	53
Japan	1	1	1
Asia (excluding Japan)	23	24	25
Europe (excluding France)	9	9	10
Other	11	11	11
Total export	**100**	**100**	**100**
France	-	-	-
TOTAL	**100**	**100**	**100**

1.2.3. The cognac production method

The Cognac region is located around the Charente basin. The vineyard, which currently extends over about 75,000 hectares, consists almost exclusively of the white ugni varietal which yields a wine that produces the best eaux-de-vie. This region is divided into six vineyards, each of which has its own qualities: Grande Champagne, Petite Champagne, Borderies, Fins Bois, Bons Bois and Bois Ordinaires. Hennessy selects its eaux-de-vie essentially from the first four vineyards, where the quality of the wines is more suitable for the preparation of its cognacs.

Charentaise distillation is unique because it takes place in two stages, a first distillation ("première chauffe") and a second distillation ("seconde chauffe"). The eaux-de-vie obtained are aged in oak barrels. Cognac results from the gradual blending of eaux-de-vie selected on the basis of vintage, origin and age.

Hennessy – which carries out all of its production in Cognac – inaugurated a state-of-the-art bottling and packaging plant named Pont Neuf in 2017. The new plant will ultimately boost the Maison's production capacity to 10 million cases per year. The design of this 26,000-square-meter facility reduces its environmental footprint and optimizes working conditions to an extent never achieved previously.

1.2.4. Supply sources for wines and cognac eaux-de-vie and subcontracting

Most of the cognac eaux-de-vie that Hennessy needs for its production are purchased from a network of approximately 1,600 independent producers, a collaboration which enables the company to ensure that exceptional quality is preserved as part of an ambitious sustainable winegrowing policy. Hennessy directly operates about 170 hectares, providing for less than 1% of its eaux-de-vie needs.

Purchase prices for eaux-de-vie are agreed on between the company and each producer based on supply and demand and the quality of the eaux-de-vie. In 2018, the price of eaux-de-vie from the harvest increased by 7% compared to the 2017 harvest.

With an optimized inventory of eaux-de-vie, Hennessy can manage the impact of price changes by adjusting its purchases from year to year under the contracts with its partners. Hennessy continues to control its purchase commitments and diversify its partnerships to prepare for its future growth across the various quality grades.

Like the Champagne and Wine businesses, Hennessy obtains its dry materials (bottles, corks and other packaging) from non-Group suppliers. The barrels and casks used to age the cognac are also obtained from non-Group suppliers. Hennessy makes only very limited use of subcontractors for its core business: aging, blending and bottling eaux-de-vie.

1.2.5. The vodka production method, supply sources and subcontracting

Vodka is generally obtained from the distillation of various grains or potatoes. Belvedere vodka is quadruple distilled from Polish rye. Three of these distillations are carried out at the Polmos Zyrardów distillery in Poland, which uses water purified with a special process that yields a vodka with a unique taste. Overall, Belvedere's top raw eaux-de-vie supplier represents less than 30% of the company's supplies.

1.2.6. The Scotch whisky production method

As required by law to receive the Scotch whisky designation, the Glenmorangie and Ardbeg single malt whiskies are produced in Scotland from water and malted barley, fermented using yeast, and distilled and matured in Scotland for at least three years, in oak casks whose capacity may not exceed 700 liters. As single malt whiskies, they are the product of only one distillery. Glenmorangie's stills are the tallest in Scotland at 5.14 meters and allow only the lightest vapors to ascend and condense. The spirit still at Ardbeg has a unique spirit purifier. Glenmorangie and Ardbeg are normally matured for a minimum of ten years in very high-quality casks.

1.3. WINES AND SPIRITS DISTRIBUTION

Moët Hennessy has a powerful and agile global distribution network, thanks to which the Wines and Spirits business group continues to expand the presence of its portfolio of brands in a balanced manner across all geographies. Part of this network consists of joint ventures with the Diageo [1] spirits group, governed by agreements that have been in place since 1987, which help strengthen the positions of the two groups, improve distribution control, enhance customer service and increase profitability by sharing distribution costs. This mainly involves Japan, China and France. In 2018, 26% of champagne and cognac sales were made through this channel.

1.4. HIGHLIGHTS OF 2018 AND OUTLOOK

1.4.1. Highlights

The Wines and Spirits business group performed well, in keeping with its value-enhancing strategy, and reaffirmed its leadership position by pursuing balanced geographic expansion, with particularly remarkable momentum in the United States and Asia. The Maisons maintained a strong innovation policy and stepped up their environmental and social commitments.

(1) Diageo has a 34% stake in Moët Hennessy, which is the holding company of the Christian Dior group's Wines and Spirits businesses.

The champagne houses enhanced their value propositions in a particularly competitive market. While champagne volumes were down 1%, organic revenue growth was 4%. The increased value was driven by more rapid growth in prestige cuvées and a firm price increase policy. For all Maisons, it was a year of exceptional harvests in terms of both quality and quantity.

Moët & Chandon consolidated its leading position with solid growth in value, driven by successful product innovations such as *Ice Impérial* and *Ice Impérial Rosé*. In June, the Maison unveiled its new signature, "Must be Moët & Chandon", and in December announced a partnership with the FIA Formula E championship for electric cars.

Dom Pérignon continued to reaffirm its unique model. Its growth was driven by *Dom Pérignon Vintage 2009* and *Dom Pérignon 2000 Plénitude 2*. A highlight of the year was the passing of the torch by Richard Geoffroy – the Maison's cellar master for the past 28 years – on to Vincent Chaperon, who has worked alongside him since 2005. An artistic collaboration was launched with Lenny Kravitz.

On the occasion of its 160th anniversary, **Mercier** unveiled a fully renovated visitor center.

Following another record-setting year, **Ruinart** confirmed its growth, driven in particular by its premium cuvées and its iconic *Blanc de Blancs*. The Maison's oenological excellence was highlighted once again by the launch of *Dom Ruinart 2007*. Its support for contemporary art was illustrated by photographer Liu Bolin's creations depicting the people and expertise behind Ruinart.

In 2018, **Veuve Clicquot** celebrated the bicentennial of the first-ever blended Rosé, created by Madame Clicquot. The Maison continued to honor women entrepreneurs around the world by launching the Veuve Clicquot Businesswoman of the Year Award in Japan, Hong Kong, Russia and South Korea. Construction continued at its new production site near Reims.

Krug gained momentum with *Krug Grande Cuvée 166e Édition* and *Krug Rosé 21e Édition*. The Krug Encounters program, rolled out worldwide, met with great success and the Krug Echoes communication platform was enriched with the addition of innovative tasting experiences.

Estates & Wines reinforced its wines' reputation for excellence among consumers and opinion leaders: Terrazas de los Andes was named Argentine Wine Producer of the Year, while Newton was recognized by industry publications, receiving exceptional tasting notes.

Chandon launched *Aluminum Sweet Star Mini*, a single-serving bottle, in the United States. *Chandon Brut* was named Best Australian Sparkling Wine and *Baron B Brut Nature* was selected as Best Argentine Sparkling Wine, crowning the excellent work of its oenologists.

Hennessy maintained excellent momentum in its strategic markets (the United States and China) as well as emerging markets (Africa, the Caribbean, Russia and Eastern Europe), with all its ranges of cognac contributing to this performance in a supply-constrained environment. Organic revenue growth in 2018 came to 7%, with volumes up 3%. The Maison continued to innovate across the various quality grades in its portfolio. It also maintained a high level of investment to ensure the excellence of its eaux-de-vie and increased its production capacity at the new Pont Neuf site – an exemplary model of sustainable design – which was inaugurated in 2017. Marketing campaigns allowed it to reach target customers with even more precision, while the online portion progressed strongly.

Glenmorangie and **Ardbeg** whiskies delivered a solid performance, fueled by ongoing innovation and value creation provided by prestigious offerings designed for connoisseurs and collectors. An ambitious expansion plan is underway for both Maisons' distilleries.

Belvedere vodka's growth was also driven by innovation. Its new *Single Estate Rye* series received numerous awards. The brand maintained its commitment to social and environmental responsibility.

Volcán De Mi Tierra tequila, launched in 2017, continued its selective rollout in its two main markets, the United States and Mexico.

Woodinville Whiskey Company successfully began its commercial expansion outside Washington State.

The **Clos 19** online platform enriched its selection of exclusive products and experiences. It continued its expansion in the United States and consolidated its position in the United Kingdom and Germany.

1.4.2. Outlook

Excellence, innovation and careful attention to customers' specific expectations in each country will continue to drive growth and value creation in the Wines and Spirits business group in the coming months. In an uncertain global context, all Maisons will rely on their highly dedicated staff, their drive for excellence and innovation, and the strong appeal of their brands to continue securing and sustainably building their long-term future. The diverse range of customer experience they have built up, thanks to the strength of their creative, high-quality product portfolios, will help them adapt to new lifestyles and win over the next generation of consumers. Moët Hennessy's powerful and agile global distribution network is a major asset, enabling it to react to changes in the economic environment and seize every opportunity to increase market share. Increasing production capacity remains a top priority, along with a very active sourcing policy for all Maisons. As part of their long-term vision, all Maisons aim to step up their sustainability commitment to protect the environment and preserve their expertise.

2. Fashion and Leather Goods

In 2018, the Fashion and Leather Goods business group posted revenue of 18,455 million euros, or 39% of the Financière Agache group's total revenue.

2.1. THE BRANDS OF THE FASHION AND LEATHER GOODS BUSINESS GROUP

In the luxury Fashion and Leather Goods sector, the Group holds a portfolio of brands that are primarily French, but also include Italian, Spanish, British, German and American companies.

Ever since 1854, **Louis Vuitton**'s success has been based on the faultless craftsmanship of its trunk-making, on complete control of its distribution and on its exceptional creative freedom, a source of perpetual renewal and inventiveness. By ensuring the right balance between new designs and iconic leather goods lines, between constantly perfected unique artisanal expertise and the dynamics of fashion designed in perfect symbiosis with the brand universe, the Maison is committed to surprising its customers, and making its stores inspiring. For over 150 years, its product line has continuously expanded with new models – from luggage to handbags and more – and new materials, shapes and colors. Famous for its originality and the high quality of its creations, today Louis Vuitton is the world leader in luxury goods and offers a full range of products: fine and high-end leather goods, ready-to-wear for men and women, shoes and accessories, watches, jewelry, eyewear and, since 2017, a collection of nine women's fragrances and five men's fragrances.

Christian Dior was founded in 1946. Ever since its first "*New Look*" show, the Maison has continued to assert its vision through elegant, structured and infinitely feminine collections, becoming synonymous around the world with French luxury. Christian Dior's unique vision is conveyed today with bold inventiveness throughout the Maison's entire range, from haute couture, leather goods and ready-to-wear to footwear and accessories for both men and women as well as Watches and Jewelry. Parfums Christian Dior is included in the Perfumes and Cosmetics business group.

Founded in Rome by Adele and Edoardo Fendi in 1925, **Fendi** initially seduced its clientele of elegant Italian women, before conquering the rest of the world. Fendi has been part of the Group since 2000. Particularly well-known for its skill and creativity in furs, the brand is also present in accessories – including the iconic *Baguette* bag and the timeless *Peekaboo* – as well as ready-to-wear and footwear.

Loewe, the Spanish Maison founded in 1846 and acquired by the Group in 1996, originally specialized in very high-quality leather work. Today it operates in leather goods and ready-to-wear. Perfumes Loewe is included in the Perfumes and Cosmetics business group.

Marc Jacobs, created in New York in 1984, is named after its founder and has been part of the Group since 1997. Through its collections of men's and women's ready-to-wear, leather goods and shoes, it aims to be the symbol of an irreverent urban fashion movement that is culturally driven but also socially engaged.

Celine, founded in 1945 by Céline Vipiana and owned by the Group since 1996, offers ready-to-wear items, leather goods, shoes and accessories.

Kenzo, formed in 1970, joined the Group in 1993. Renowned for its lavish prints and vibrant colors, the Maison operates in the areas of ready-to-wear for men and women, fashion accessories and leather goods. Its perfume business is part of the Perfumes and Cosmetics business group.

Givenchy, founded in 1952 by Hubert de Givenchy and part of the Group since 1988, a company rooted in a tradition of excellence in haute couture, is also known for its collections of men and women's ready-to-wear and its fashion accessories. Givenchy perfumes are included in the Perfumes and Cosmetics business group.

Pink Shirtmaker, a brand formed in 1984 that joined the Group in 1999, is a recognized specialist in high-end shirts in the United Kingdom.

Emilio Pucci, an Italian brand founded in 1947, is a symbol of casual fashion in luxury ready-to-wear, a synonym of escape and refined leisure. Emilio Pucci joined the Group in 2000.

Berluti, an artisan bootmaker established in 1895 and held by the Group since 1993, designs and markets very high-quality men's shoes, as well as a line of leather goods, now enriched with a line of ready-to-wear items for men.

Loro Piana – an Italian company founded in 1924 and held by the Group since 2013 – creates exceptional products and fabrics, particularly from cashmere, of which it is the world's foremost processor. The brand is famous for its dedication to quality and the noblest raw materials, its unrivalled standards in design and its expert craftsmanship.

Rimowa, founded in Cologne in 1898, is the first German brand to be owned by the Group. Renowned for its prestigious luggage, its products feature an iconic design and reflect its constant quest for excellence.

Nicholas Kirkwood, the British luxury footwear company established in 2004 and named after its founder, in which the Group acquired a 52% stake in 2013, is famous throughout the world for its unique, innovative approach to footwear design.

2.2. COMPETITIVE POSITION

In the Fashion and Leather Goods sector, the luxury market is highly fragmented, consisting of a handful of major international groups plus an array of smaller independent brands. Financière Agache group brands are present all around the world, and it has established itself as one of the most international groups. All these groups compete in various product categories and geographic areas.

2.3. DESIGN

Working with the best designers, while respecting the spirit of each brand, is a strategic priority: the creative directors promote the Maisons' identities, and are the artisans of their creative excellence and their ability to reinvent themselves. As a means to continually renew this precious resource, the Group has always been committed to supporting young designers and nurturing tomorrow's talent, in particular through the LVMH Prize for Young Fashion Designers, which each year honors the work of an up-and-coming designer displaying exceptional talent and outstanding creativity.

The Financière Agache group believes that one of its essential assets is its ability to attract a large number of internationally recognized designers to its Maisons. While Karl Lagerfeld and Silvia Fendi have together driven the success of Rome-based fashion house Fendi for many years, 2018 featured four new arrivals to the Group: Virgil Abloh as Creative Director of Menswear at Louis Vuitton, with Kim Jones named to the same position at Christian Dior Couture; Hedi Slimane as Artistic, Creative and Image Director at Celine; and Kris Van Assche as Creative Director at Berluti. In 2017, Clare Waight Keller was made Creative Director of Givenchy with responsibility for haute couture, ready-to-wear and women's and men's accessories; and John Ray was appointed as Creative Director at Pink Shirtmaker. Since 2016, Maria Grazia Chiuri has been the first female Creative Director of Dior's womenswear collections. At Louis Vuitton, Nicolas Ghesquière has been creating designs for women's collections in perfect symbiosis with the values and spirit of the brand since 2013. Jonathan Anderson has been Loewe's Creative Director since 2013, while Humberto Leon and Carol Lim have served as Kenzo's Co-Creative Directors since 2011. Marc Jacobs continues to lead the design team at the brand he founded in 1984.

2.4. DISTRIBUTION

Controlling the distribution of its products is a core strategic priority for the Financière Agache group, particularly in luxury Fashion and Leather Goods. This control allows the Group to benefit from distribution margins, and guarantees strict control of the brand image, sales reception and environment that the brands require. It also gives the Group closer contacts with its customers so that it can better anticipate their expectations thereby offering them unique shopping experiences.

In order to meet these objectives, the Group has created the first international network of exclusive boutiques under the banner of its Fashion and Leather Goods brands. This network included more than 1,500 stores as of December 31, 2018.

2.5. SUPPLY SOURCES AND SUBCONTRACTING

In 2018, Louis Vuitton increased its production capacity, mainly in France, thanks to a massive recruitment campaign for leather goods artisans and the opening of a new workshop in the Vendée region. Louis Vuitton's twenty-one leather goods workshops – fifteen in France, three in Spain, two in the United States and one in Italy – manufacture most of its leather goods products. All development and manufacturing processes for the entire footwear line are handled at Louis Vuitton's workshops in Fiesso d'Artico, Italy, whilst production of accessories (textiles, jewelry, belts, eyewear, etc.) is concentrated in the Louis Vuitton workshops at Barbera (Catalonia) and Gallarate (Lombardy). Louis Vuitton uses external manufacturers only to supplement its manufacturing and achieve production flexibility in terms of volumes.

Louis Vuitton purchases its materials from suppliers located around the world, with whom the Maison has established partnership relationships. The supplier strategy implemented over the last few years has enabled volume, quality and innovation requirements to be met thanks to a policy of concentration and supporting the best suppliers while limiting Louis Vuitton's dependence on them. For this reason, the leading leather supplier accounts for only around 18% of Louis Vuitton's total leather supplies.

Christian Dior Couture's production capacity and use of outsourcing vary very widely depending on the product. In leather goods, it works with companies outside the Group to increase its production capacity and provide greater flexibility in its manufacturing processes. In ready-to-wear and high jewelry, it purchases supplies solely from non-Group businesses.

Fendi and Loewe have leather workshops in their countries of origin, and in Italy for Celine and Berluti, which cover only a portion of their production needs. Rimowa manufactures a large proportion of its products in Germany. Generally, the subcontracting used by the business group is diversified in terms of the number of subcontractors and is located primarily in the brand's country of origin, France, Italy and Spain.

Loro Piana manages all stages of production, from the sourcing of natural fibers to the delivery of finished products to stores. Loro Piana procures its unique materials (Baby Cashmere from northern China and Mongolia, vicuña from the Andes, and extra-fine Merino wool from Australia and New Zealand) through exclusive partnerships with suppliers all over the world. Its exquisite textiles and products are then manufactured in Italy.

Moreover, in order to safeguard and develop the Fashion and Leather Goods companies' access to the high-quality raw materials and expertise they need, the LVMH Métier d'Arts business segment created in 2015 invests in, and provides long-term support to, its best suppliers. In leather, for example, LVMH teamed up with the Koh brothers in 2011 to develop the business of the Heng Long tannery in Singapore. Founded in 1950, it is now a leading crocodile leather tannery. In 2012, the Group acquired Tanneries Roux, founded in 1803 and one of the last French tanneries specializing in calfskin. In 2017, the Group formed Thélios, a joint venture with Marcolin, combining the latter's expertise in the production of fashion eyewear with the know-how of LVMH.

Lastly, fabric suppliers for the different Maisons are often Italian, but not exclusively.

The designers and style departments of each Maison ensure that manufacturing does not generally depend on patents or exclusive expertise owned by third parties.

2.6. HIGHLIGHTS OF 2018 AND OUTLOOK

2.6.1. Highlights

The Fashion and Leather Goods business group achieved organic revenue growth of 15% in 2018.

Louis Vuitton's excellent performance was driven by its momentum in all its creative areas, and reflected an ideal balance between the vitality of its iconic product lines and the contribution of fresh new designs. Opening a new chapter for its Menswear collections, Virgil Abloh's first runway show in June was met with an enthusiastic welcome. Continuing a longstanding tradition of artistic friendships, the collaboration between Creative Director of Womenswear Nicolas Ghesquière and stylist Grace Coddington featured a playful assortment of animals across a collection of handbags, accessories and footwear. In leather goods, a new line – *New Wave* – made its debut, and the iconic *Twist*, *Capucines* and *Néonoé* models were revisited. The first Louis Vuitton fragrances for men were launched, while the women's perfume collection was expanded. With the launch of its most recent creation, *Attrape-Rêves*, actress Emma Stone became the star of Louis Vuitton's first fragrance film. In its constant quest to offer its customers unique experiences, the Maison continued enhancing the quality of its retail network, renovating its South Coast Plaza store in California. Pop-up stores were also opened in several cities around the world. To meet high demand for its products, Louis Vuitton opened a new workshop in the Vendée department of western France in 2018. In October, the Maison was awarded the Butterfly Mark by Positive Luxury for its commitment to excellence in the field of environmental and social responsibility. Continuing its worldwide tour, the "Volez, Voguez, Voyagez" exhibition touched down in Shanghai at the end of the year.

Christian Dior Couture turned in a remarkable performance in all its product categories and all its regions, and enhanced its appeal worldwide. Dior's excellence and creativity were on display, particularly at the runway shows for Maria Grazia Chiuri's womenswear collections: the highly acclaimed Spring/Summer 2018 haute couture show, an ode to surrealism, was followed by an extraordinary masked ball in the gardens of the Rodin Museum; the *Cruise* show was held at the Domaine de Chantilly, with a spectacular performance by traditional female equestrians from Mexico; the Spring/Summer 2019 Ready-to-Wear collection was accompanied by a poetic ballet of contemporary dance. In June 2018, the new Creative Director of Menswear Kim Jones had his runway debut with the Spring/Summer 2019 show, held at the French Republican Guard in Paris, which was a resounding success, as was the Fall 2019 show held in Tokyo in November 2018. Dior's iconic Toile de Jouy design embellished the imposing facades of its largest boutiques. In another first, the *Dior Dior Dior* high jewelry collection was exhibited at the City of Paris' Museum of Modern Art during Couture Week, and was a great success.

Fendi continued to reaffirm its creativity and expertise through its ready-to-wear, handbag and footwear collections, as well as its Couture runway show in Paris, designed by Karl Lagerfeld and Silvia Fendi. The iconic *Peekaboo* handbag was showcased in an innovative digital marketing campaign, while two capsule collections – *FF Reloaded* and *Fendi Mania* – were launched, expressing a highly contemporary side of the brand. Fendi reinforced its retail network and reaffirmed its commitment to preserving expertise with an exhibition in Rome and strong involvement in LVMH's Institut des Métiers d'Excellence.

Growth at **Loro Piana** was driven in particular by the success of its recent collection, *The Gift of Kings*, made from the world's finest wool, an emblem of the excellence of the raw materials sourced by the Maison. Its Baby Cashmere, another exceptional material, celebrated its 10th anniversary at a series of pop-up stores around the world. Footwear turned in an excellent performance. The brand focused on developing women's ready-to-wear and the customer experience in a network of stores whose expansion remained selective.

Celine's momentum remained strong, driven by the ongoing success of its leather goods lines. It embarked on a new phase in its development with the arrival of Hedi Slimane as Artistic, Creative and Image Director. In September, his first runway show was a great success and had a huge impact in the fashion world.

Givenchy was boosted by the success of Clare Waight Keller's first collections, available in boutiques starting in February. The design of the Duchess of Sussex's wedding gown substantially raised its brand exposure. Clare Waight Keller's talent was recognized several times throughout the year, particularly at the British Fashion Awards. A flagship boutique was inaugurated on New Bond Street in London.

Under the leadership of its Creative Director Jonathan Anderson, **Loewe** achieved very strong momentum, with the success of its new *Gate* line of leather goods and rapid growth in ready-to-wear. A wide range of gifts was on offer at the end of the year. The brand continued to selectively expand and improve its network of stores.

Kenzo's casual urban offering was expanded, with Menswear performing especially well. Women's ready-to-wear reaffirmed the balance sought between modernity and desirability. One of the year's highlights was a significant geographic expansion, with the brand opening boutiques and inaugurating its digital presence in the United States, and resuming retail operations in China and Macao.

Berluti achieved strong performance and expanded its retail network. All product categories posted growth, especially exceptional items such as tailored footwear, exotic leathers and special orders. The *Zero Cut* shoe, crafted from a single piece of leather, expresses the quintessence of Berluti's shoemaking expertise. The year was marked by the arrival of Kris Van Assche as its new Creative Director.

Marc Jacobs continued to reorganize and to develop its product lines. Its *Snapshot* leather goods line saw rapid growth. A pop-up store was opened on Madison Avenue in New York to mark the launch of the *Redux Grunge Collection 1993/2018* capsule collection.

Rimowa continued its collaborations to design limited-edition suitcases. The collections designed together with streetwear brand Supreme and Off-White, Virgil Abloh's label, were very well received and enhanced Rimowa's appeal. The brand celebrated its 120th anniversary and launched its first global marketing campaign.

Thomas Pink revised its visual identity and became **Pink Shirtmaker London**.

2.6.2. Outlook

Louis Vuitton will keep building its growth on its creative momentum and its unique traditional craftsmanship. In terms of products, high-profile initiatives will be launched in all businesses. Plans are underway for a number of emblematic stores. Campaigns and events connected with Louis Vuitton's business highlights will support these developments. The Maison will continue to reinforce its production capacity with the opening of a new workshop in Beaulieu-sur-Layon in the Maine-et-Loire department of western France in early 2019. **Christian Dior Couture** has set itself ever more ambitious targets for the months ahead. Creativity, innovation and expertise will continue to fuel its business, and several high-impact events in key markets will increase the brand's international reach.

Fendi plans to step up the pace of its growth, with a number of product launches in the coming months and strong performance in ready-to-wear collections as well as the expansion of its leather goods offering. The first highlight of the year will involve a refocus on its iconic *Baguette* handbag. At **Celine**, its new designer's first ready-to-wear collections will debut in boutiques in the first half of the year, marking the beginning of the rollout of its new store concept. All of the business group's brands will maintain their focus on creativity in their collections and achieving excellence with respect to products, retail and the customer experience. The continued selective expansion of their boutique networks will go hand in hand with a stronger digital strategy and the development of online sales.

3. Perfumes and Cosmetics

In 2018, the Perfumes and Cosmetics business group posted revenue of 6,092 million euros, representing 13% of the Financière Agache group's total revenue.

3.1. THE BRANDS OF THE PERFUMES AND COSMETICS BUSINESS GROUP

Parfums Christian Dior – which was born in 1947, the year Christian Dior held his first fashion show – introduced the revolutionary concept of "total beauty" with the launch of *Miss Dior* perfume, followed by makeup with *Rouge Dior* lipstick in 1953 and Dior's first line of skincare products in 1973. Today, Parfums Christian Dior allocates 1.2% of its revenue to research and is on the cutting edge of innovation. Today, Dior's perfumer François Demachy and Creative Director for Makeup Peter Philips are building on Christian Dior's rich heritage and legacy by combining bold vision and unique expertise, in harmony with the Maison's couture collections.

Guerlain, founded in 1828 by Pierre-François-Pascal Guerlain, has created more than 700 perfumes since its inception, and enjoys an exceptional brand image in the world of perfume. Heir to an olfactory repository of some 1,100 fragrances, the Maison's perfumer Thierry Wasser travels the world today in search of the most exclusive raw materials. His spirit of daring is shared by Olivier Echaudemaison, Creative Director for Makeup, who works to reveal and exalt the beauty of women. Guerlain's iconic perfumes include *Shalimar*, *L'Instant de Guerlain* and *La Petite Robe Noire*.

Founded in 1957, **Parfums Givenchy** continues to honor the values of its founder, Hubert de Givenchy, through its perfumes, makeup and skincare products. From *L'Interdit* to *Givenchy Gentleman*, the Maison's fragrances embody Givenchy's unique vision. Inspired by the avant-garde spirit and sensual aura of the fashion house's couture collections, Nicolas Degennes, Givenchy's Creative Director for Makeup, has perpetuated the brand's singular inventiveness since 1999.

The first women's fragrance by **Kenzo Parfums** was released in 1988. Kenzo Parfums went on to create a series of fragrances whose unique and offbeat spirit has made its mark on the world of perfume, including *Flower by Kenzo*, *L'eau Kenzo*, and *Kenzo Homme*.

Benefit Cosmetics, founded in San Francisco in 1976 by twins Jean and Jane Ford, joined the Group in late 1999. Benefit has forged its own distinctive identity among cosmetics brands, thanks to the relevance and effectiveness of its products, bursting on the scene with playful, plucky names, creative packaging, and custom services.

Fresh, which started out in 1991 as a humble apothecary shop, joined the Group in September 2000. Remaining true to its roots by using natural ingredients like sugar, the Maison continues to develop its unique approach combining innovative ingredients with time-honored techniques to transform everyday routines into holistic sensorial experiences.

Perfumes Loewe introduced its first perfume in 1972. Perfumes Loewe embodies the quintessentially Spanish spirit: elegant, refined, strong and unpredictable, with floral, woody and lemony essences.

Make Up For Ever, which was created in 1984 and joined the Group in 1999, is a professional makeup brand with an innovative range of exceptional products designed for stage actors and other performers, makeup artists, and makeup lovers around the world.

Founded in Parma in 1916, **Acqua di Parma** was acquired by the Group in 2001. Through its fragrances and beauty products imbued with elegance, Acqua di Parma – synonymous with Italian excellence and fine living – embodies discreet luxury.

Kendo is a cosmetics brand incubator set up in 2010, which now houses five brands: Kat Von D Beauty, Marc Jacobs Beauty, Ole Henriksen, Bite Beauty (which specializes in lipstick) and Fenty Beauty by Rihanna, which was launched in 2017. These brands are primarily distributed by Sephora.

Maison Francis Kurkdjian was founded in 2009 by the renowned perfumer to explore new territories for perfume by creating custom fragrances for his private clientele and by collaborating with artists for installation projects involving scents. This acquisition, which was completed in 2017, has established the Group in the fast-growing field of niche perfumes.

3.2. COMPETITIVE POSITION

Worldwide, the Group's brands achieved market-beating growth in 2018, enabling them to increase their market share in the main markets monitored by external panels such as the NPD panel and the Beauty Research sell-out panel.

3.3. RESEARCH

Innovation and the constant quest for performance have always been essential to the DNA of all the Group's Perfumes and Cosmetics brands. The Group's brands have pooled their resources in research and development since 1997, with a joint center in Saint-Jean-de-Braye (France), at the industrial site of Parfums Christian Dior. With the opening several years ago of Hélios, its new R&D facility, LVMH Recherche has been able to expand its activities under optimal conditions and become more involved in ambitious scientific projects. About 270 researchers work at Hélios, located at the heart of Cosmetic Valley, in some 20 key fields requiring cutting-edge expertise, such as molecular and cell biology, dermatology, and ethnobotany. The second largest cosmetics research center in France, its team consists of researchers, biologists and formulation scientists who work closely with colleagues at the world's most prestigious universities. Two other innovation centers, in Japan and China, focus on research to meet the specific needs of Asian women. Thanks to their knowledge of cell mechanisms, researchers at Hélios have discovered biological targets that promote beautiful, youthful skin: protection of skin stem cells, aquaporins to provide long-lasting hydration, and skin detoxification mechanisms, to name a few. More than 200 patents have been granted in recognition of their scientific innovations.

3.4. SUPPLY SOURCES AND SUBCONTRACTING

The five French production centers of Guerlain, Parfums Christian Dior and LVMH Fragrance Brands meet almost all the manufacturing needs of the four major French brands, including Kenzo Parfums, in fragrances as well as makeup and beauty products. Make Up For Ever also has manufacturing capacities in France. Benefit, Perfumes Loewe and Fresh have some of their products manufactured by the Group's other brands, with the remainder subcontracted externally.

Overall, manufacturing subcontracting represented about 8% of the cost of sales for this activity in 2018, plus approximately 10 million euros for logistics subcontracting.

Dry materials, such as bottles, stoppers and any other items that form the containers or packaging, are acquired from suppliers outside the Group, as are the raw materials used to create the finished products. In certain cases, these materials are available only from a limited number of French or foreign suppliers.

Most product formulas are developed at the Group's laboratories in Saint-Jean-de-Braye (France), but the Group can also acquire or develop formulas from specialized companies, particularly for perfume essences.

3.5. DISTRIBUTION AND COMMUNICATION

The presence of a broad spectrum of brands within the business group generates synergies and represents a market force. The volume effect means that advertising space can be purchased at competitive rates, and better locations can be negotiated in department stores. The use of shared services by subsidiaries increases the effectiveness of support functions for worldwide distribution and facilitates the expansion of the newest brands. These economies of scale permit larger investments in design and advertising, two key factors for success in Perfumes and Cosmetics.

Excellence in retailing is key to the Group's Perfumes and Cosmetics Maisons. It requires expertise and attentiveness from beauty consultants, as well as innovation at points of sale. The Group's Perfumes and Cosmetics brand products are sold mainly through "selective retailing" channels (as opposed to mass-market retailers and drugstores), although certain brands also sell their products in their own stores.

Parfums Christian Dior mainly distributes its products to selective retail chains, such as Sephora, and department stores. Guerlain's products are distributed for the most part through its network of directly operated stores, supplemented by a network of partner retail outlets. In addition, its unique expertise is showcased in the new Guerlain Parfumeur boutiques, which immerse customers in the Maison's entrancing universe. In addition to sales through its 79 exclusive boutiques around the world, Benefit currently retails in some 50 countries worldwide. Make Up For Ever products are sold through exclusive boutiques in Paris, New York, Los Angeles and Dallas, and through a number of selective retailing circuits, particularly in France, Europe and the United States (markets developed in partnership with Sephora), as well as in China, South Korea and the Middle East. Now based in Milan, Acqua di Parma relies on an exclusive retailing network, including its directly operated stores. Kendo brands are primarily distributed by Sephora.

To meet the expectations of younger generations, who are looking for originality, as well as demand for a connected in-store and online experience, all brands are accelerating the implementation of their online sales platforms and stepping up their digital content initiatives. Our brands are actively incorporating digital tools to enhance the customer experience and attract new consumers.

3.6. HIGHLIGHTS OF 2018 AND OUTLOOK

3.6.1. Highlights

Driven in large part by the performance of its flagship brands, the Perfumes and Cosmetics business group recorded strong growth, which was particularly high in Asia. Reflecting the creativity and commitment to excellence of its different brands, all product categories contributed to this growth.

Parfums Christian Dior had another excellent year and gained market share, underscoring the vitality of its iconic fragrances and the success of its innovations. *J'adore*, boosted by a new marketing campaign, made further progress and *Miss Dior* established its leadership in Asia. Men's fragrance *Sauvage*, which had an Eau de Parfum version added to its range, saw exceptional growth. With the launch of *Joy by Dior*, embodied by actress Jennifer Lawrence, the brand added a fresh new scent to its olfactory landscape. The Maison Christian Dior boutique concept, offering a collection of exceptional fragrances, confirmed its appeal with excellent results. Parfums Christian Dior showcased its roots in Grasse; a source of inspiration and a creative hub (with Les Fontaines Parfumées, François Demachy's fragrance laboratory) as well as an exceptional terroir for its flowers used to make perfume. Guided by the creative vision of Peter Philips and backed by a strong digital marketing strategy, makeup consolidated its positions, with strong performance in lipstick, in particular the new *Ultra Rouge* lipstick, and a substantial acceleration in foundation fueled by new additions to the *Forever* range and the launch of the *Dior Backstage Face & Body Foundation* inspired by techniques used by makeup artists. Skincare was boosted by strong momentum in Asia and by the vitality and innovation of the *Prestige* range's *Micro-Huile de Rose* and *Micro-Sérum de Rose*. *Capture Youth*, launched in January 2018, won over customers in their thirties with its six targeted serums.

Guerlain turned in a remarkable performance. Perfume did very well, with the expansion of *Mon Guerlain* and the international rollout of Guerlain Parfumeur boutiques, which offer a captivating immersion in the perfume-maker's world. Momentum in makeup was driven by the highly successful *Rouge G*, which offers an unrivaled potential for customization, with 450 possible case and color combinations. In skincare, Guerlain's results were fueled by strong growth in its *Orchidée Impériale* and *Abeille Royale* lines. As part of its "In the Name of Beauty" commitment to sustainability, Guerlain continued to scale up its initiatives to preserve biodiversity, particularly to protect bees. During LVMH's Journées Particulières open-house event, Guerlain celebrated its 190th anniversary with the public by unveiling an exceptional setting at 68 Champs-Élysées, its iconic address.

Parfums Givenchy saw growth accelerate, with perfume doing very well in Europe and strong gains from makeup in Asia. The success of its new women's fragrance, *L'Interdit*, incarnated by actress Rooney Mara, helped the brand gain market share. Makeup sales were particularly strong in lip cosmetics and foundation.

Kenzo Parfums continued to roll out *Kenzo World* and revisited its iconic *Flower by Kenzo* line with a new marketing campaign filmed in the streets of San Francisco. With the highly successful launch of *BADgal BANG!*, **Benefit** became the global market leader in mascara. The brand also consolidated its lead in the brow segment with the success of *Brow Contour*, an innovative 4-in-1 brow pencil. **Make Up For Ever** continued its international development, particularly thanks to the expansion of its online sales. Fresh achieved strong growth, particularly in Asia, with the success of its *Rose* and *Black Tea* skincare lines. This range was enriched by its *Black Tea Kombucha* age-delay facial essence, maintaining its focus on offering a unique sensory experience through a fusion of effective natural ingredients, traditional rituals and modern science. **Acqua di Parma** saw strong growth in its *Colonia* lines, thanks to *Colonia Pura* in particular, while the *Chinotto di Liguria* fragrance rounded out the *Blu Mediterraneo* range. For its first full year of activity, **Fenty Beauty by Rihanna** confirmed its worldwide success with a very strong digital presence and a robust innovation program in foundation and lip cosmetics with the *Mattemoiselle* lipstick. **Marc Jacobs Beauty**'s momentum was driven by the launch of its new *Shameless* liquid foundation. Perfumes Loewe launched the women's version of its *Solo Loewe* line. **Maison Francis Kurkdjian** enjoyed very strong growth in its iconic *Baccarat Rouge 540* fragrance and continued to showcase its exceptional expertise in artisanal perfume-making.

3.6.2. Outlook

In a highly competitive market environment, the Perfumes and Cosmetics business group will draw on the strength of its well-differentiated brand portfolio to win new market share. Its brands will focus on gaining innovative momentum, retail quality and digital marketing. **Parfums Christian Dior** will innovate in its three product categories. In perfume, the brand will continue to showcase its global pillars, with strong marketing support in conjunction with Couture, and will roll out its boutique concept as well as its initiatives to build a unique customer experience around perfume, both in-store and online. Drawing on the expertise of professional makeup artists and the brand's couture spirit, makeup will be the focus of an extensive innovation plan, backed by a bolstered digital activation strategy. Dior skincare – which aims to accelerate the brand's growth in the *Prestige* and age-defying lines – will be boosted by momentum in Asia. **Guerlain** will continue rolling out its Guerlain Parfumeur boutiques; expand its flagship makeup and skincare ranges; and launch a high-performance, highly natural foundation, in line with its "In the Name of Beauty" commitment to sustainability. A new version of its *L'Interdit* fragrance and bold innovations in makeup will help speed up growth at **Parfums Givenchy**. **Benefit**'s initiatives will mainly focus on brow products, to consolidate its lead in this category, and on conveying its unique positioning, particularly in the digital realm. **Kenzo** will launch a light eau de parfum version of *Flower by Kenzo* and a new variant of *Kenzo World*. **Perfumes Loewe** will roll out its fresh new brand identity, backed by a groundbreaking marketing campaign strengthening its ties with the world of couture. **Fenty Beauty by Rihanna** will continue its international expansion, particularly in Asia.

4. Watches and Jewelry

In 2018, the Watches and Jewelry business group posted revenue of 4,123 million euros, which represented 9% of the Financière Agache group's total revenue.

4.1. THE BRANDS OF THE WATCHES AND JEWELRY BUSINESS GROUP

TAG Heuer, a pioneer of Swiss watchmaking since 1860, which was acquired by the Group in November 1999, combines innovative technology with the ultimate in precision timekeeping and avant-garde designs to create extremely accurate watches. Its most coveted traditional and automatic watches and chronographs are the *Carrera*, *Aquaracer*, *Formula 1*, *Link* and *Monaco* lines. In 2010, TAG Heuer launched the first automatic movement developed and built in-house, followed, in 2015, by the launch of a smartwatch.

Hublot, founded in 1980 and part of the Group since 2008, has always been an innovative brand, creating the first watch in the industry's history fitted with a natural rubber strap. Relying on a team of top-flight watchmakers, the brand is widely renowned for its original concept combining noble materials with state-of-the-art technology and for its iconic *Big Bang* model launched in 2005. Along with the many versions of this model, Hublot has launched the *Classic Fusion* and the more recent *Spirit of Big Bang* lines.

Zenith, founded in 1865 and established in Le Locle near the Swiss Jura region, joined the Group in November 1999. Zenith belongs to the very select group of watch movement manufactures. In the watchmaking sector, the term "manufacture" designates a company that provides the entire design and manufacturing of mechanical movements. The two master movements of Zenith, the chronograph *El Primero* and the extra-flat movement *Elite*, absolute benchmarks for Swiss watchmaking, are provided on the watches sold under this brand.

Bvlgari, founded in 1884, stands for creativity and excellence worldwide and is universally recognized as one of the major players in its sector. The long-celebrated Italian brand occupies a strong leadership position in jewelry, with an outstanding reputation for its expertise in combining colored gemstones and watches, while also playing an important role in the fragrance and accessories segments. Iconic lines include *Serpenti*, *B.zero1*, *Diva* and *Octo*.

Chaumet, a jeweler established in 1780, has maintained its prestigious expertise, which is reflected in all its designs, from high jewelry and fine jewelry to watch collections. Its major lines are *Joséphine* and *Liens*. The Group acquired Chaumet in 1999.

Fred, founded in 1936 and part of the Group since 1995, is present in high jewelry, fine jewelry and watchmaking. Since joining the Group, Fred has completely revamped its design, image and distribution. This revival can be seen in the bold, contemporary style exemplified by the brand's iconic *Force 10* line.

4.2. COMPETITIVE POSITION

The jewelry market is highly fragmented, consisting of a handful of major international groups plus an array of smaller independent brands from many different countries. The Group's brands are present all around the world, and it has established itself as one of the international leaders.

4.3. DISTRIBUTION

The business group has developed a strong international presence and is supported by a coordinated, shared set of administrative, sales and marketing resources. A worldwide multi-brand customer service network has been gradually put in place to improve customer satisfaction. Watches and Jewelry has a regional organization that covers all European markets, the Americas, Northern Asia, Japan, and the Asia-Pacific region.

The business group is focusing on the quality and productivity of its retail networks and on developing its online sales. It selects multi-brand retailers very carefully and builds partnerships so that retailers become genuine brand ambassadors when interacting with end-customers. The Maisons also continue to refurbish and open their own directly operated stores in buoyant markets in key cities.

The Watches and Jewelry brands' directly operated store network comprised 428 stores as of year-end 2018 at prestigious locations in the world's largest cities. The Watches and Jewelry business group also developed a network of franchises.

4.4. SUPPLY SOURCES AND SUBCONTRACTING

In watchmaking, manufacturing has been coordinated through the use of shared resources, such as prototype design capacities, and by sharing the best methods for preparing investment plans, improving productivity and negotiating purchasing terms with suppliers. In jewelry, centralized checking has been introduced for diamonds, alongside technical cooperation between brands for the development of new products.

At its Swiss workshops and manufacturing centers, located in Le Locle, La Chaux-de-Fonds, Neuchâtel, Cornol, Tramelan, Le Sentier, Chevenez and Nyon, the Group assembles a substantial proportion of the watches and chronographs sold under the TAG Heuer, Hublot, Zenith, Bvlgari, Montres Dior, Chaumet and Fred brands; it also designs and manufactures mechanical movements such as *El Primero* and *Elite* by Zenith, *Heuer 01* by TAG Heuer, *UNICO* by Hublot and *Solotempo* by Bvlgari; and it manufactures some critical components such as dials, cases and straps. Zenith's manufacturing facility in Le Locle underwent a major renovation in 2012. In 2013, TAG Heuer inaugurated a new movement manufacturing facility in Chevenez, and in 2015 Hublot opened a second one at its Nyon site.

At the end of 2016, Bvlgari opened a jewelry manufacturing facility in Valenza, Italy. It also operates a high jewelry workshop in Rome.

Overall, for the Group's watches and jewelry operations, subcontracting accounted for around 10% of the cost of sales in 2018.

Even though the Watches and Jewelry group can sometimes use third parties to design its models, they are most often designed in its own studios.

4.5. HIGHLIGHTS OF 2018 AND OUTLOOK

4.5.1. Highlights

Growth for the Watches and Jewelry business group was once again driven by the creativity of its brands and the strong performance delivered by their stores. Jewelry showed remarkable momentum and gained market share. In a market environment that remained challenging, the watch business grew thanks to the strength of its brands' flagship lines and the excellence of their innovations.

Bvlgari had a very good year and continued to gain market share. Jewelry was spurred by its strong creative momentum. The *Serpenti*, *B.zero1* and *Diva's Dream* lines were enriched with new models, and the launch of the *Fiorever* collection, designed around a central diamond and white gold, is set to become a new pillar for the brand. The *Wild Pop* high jewelry collection, which embodies Bvlgari's modernity and expertise, continued its rollout. In watches, the new *Lucea*, *Serpenti Tubogas*, and *Diva's Dream* timepieces were highly successful, and the favorable reception of the new *Octo Finissimo* models confirmed the iconic potential of this men's line. Momentum in leather goods was driven by the *Serpenti Forever* and *Black Glam* models. The store improvement plan continued, with reopenings in Hong Kong and Milan, while new boutiques were opened in locations including Boston and Saint Petersburg. Bvlgari also continued its pop-up store program, which rounds out and energizes the network. Development in the luxury hotel sector continued with the inauguration of a new *Bvlgari Hotels & Resorts* location in Shanghai. The "Tribute to Femininity" exhibition at the Moscow Kremlin Museums presented over 500 exceptional pieces of jewelry showcasing the brand's heritage, wealth of inspiration, visionary creativity and refined craftsmanship.

TAG Heuer continued expanding its flagship *Carrera*, *Aquaracer* and *Formula 1* lines. Its catalogue was enriched with the limited editions of the *Monaco Bamford* and *Carrera Fujiwara* models, while a 41mm version of the smartwatch proved a successful addition to the range. Other highlights of the year included the opening of a flagship store on Fifth Avenue in New York and a modular smart boutique, faithful to the brand's avant-garde spirit, in Tokyo's Ginza district. TAG Heuer's team of brand ambassadors, its sports and cultural contracts, and its very active social media presence have helped raise its profile among target customers.

Hublot continued its robust growth, driven by its *Classic Fusion* and *Big Bang* lines, with *Spirit of Big Bang* – now the brand's third core collection – also contributing to its success. Hublot once again demonstrated its creativity by releasing a range of extraordinary and highly technical models, including the *Meca-10 Ceramic Blue* and the *Classic Fusion Aerofusion Orlinski* designed in collaboration with French sculptor Richard Orlinski. New stores were opened in London and Geneva, and a boutique was acquired in Beverly Hills. A marketing strategy combining prestigious partnerships, events and a strong digital presence helped raise the brand's profile. Special emphasis was placed on the 2018 soccer World Cup, including the launch of Hublot's first smartwatch, the *Big Bang Referee 2018*. The young soccer star Kylian Mbappé joined the brand's network of ambassadors.

While continuing to develop its iconic *Chronomaster*, *Elite* and *Pilot* collections, **Zenith** completed the launch of its *Defy* line. The brand's revolutionary *El Primero 21* model, which measures time down to the hundredth of a second, proved highly successful. Zenith continued to consolidate its organization while leveraging synergies offered by the Group's other watchmaking brands.

Growth at **Chaumet** was fueled by the successful *Liens* and *Joséphine* collections, along with its ongoing shift further upmarket, particularly in China. Its flagship lines were enriched by *Liens Séduction* designs, *Liens Evidence* bracelets and new *Joséphine Aigrette* rings. The brand expressed its exceptional creativity in high jewelry by launching its *Les Mondes de Chaumet* collection, made up of three chapters: *Promenades Impériales*, *Chant du Printemps* and *Trésors d'Afrique*. The success of the Mitsubishi Ichigokan Museum's exhibition on Chaumet's culture and history increased brand awareness in Japan. The store network continued to expand, particularly in Asia.

Fred's *Force 10* line and its new *8°0* collection were its main growth drivers. It opened new stores in Tokyo, Macao, Saint-Tropez and Busan in South Korea.

4.5.2. Outlook

By constantly monitoring markets and remaining highly selective in its allocation of resources, the Watches and Jewelry business group is actively pursuing its market share growth target. This ambition is based on sustaining its key growth drivers: the exceptional creativity of its brands, combined with their constant pursuit of perfection in iconic lines and new collections alike; consolidating their world-class craftsmanship and technological leadership through investments in production capacity; precisely targeted marketing campaigns, especially in the digital realm, to raise the watches and jewelry brands' profiles in key regions; and lastly, improvements in the quality, productivity and profitability of retail networks, which remain a top priority. **Bvlgari** will continue to expand its network, with the opening of a flagship store in Paris on the Avenue des Champs-Élysées, the expansion of its boutique on Place Vendôme, and selective renovations and openings in Asia and the United States. The flagship *B.zero1* line will celebrate its 20th anniversary. **TAG Heuer** plans to open stores in China and Hong Kong. **Chaumet** will continue rolling out its new store concept, with projects that will raise brand awareness in Europe.

5. Selective Retailing

In 2018, the Selective Retailing business group posted revenue of 13,646 million euros, or 29% of the Financière Agache group's total revenue.

5.1. TRAVEL RETAIL

DFS

Duty Free Shoppers (DFS) which joined the Group in 1997, is the pioneer and the world leader in the sale of luxury products to international travelers. Its activity is closely linked to tourism cycles.

Since it was formed in 1960 as a duty-free concession in the Kai Tak airport in Hong Kong, DFS has acquired an in-depth knowledge of the needs of traveling customers, built solid partnerships with Japanese and international tour operators as well as with the world's leading luxury brands, and has significantly expanded its business, particularly in tourist destinations in the Asia-Pacific region.

To accompany the rise of travel retail, DFS has also focused on the development of its city-center *Galleria* stores, which currently account for nearly 60% of its revenue. The 20 DFS *Gallerias*, each with a floor area of between 6,000 and 12,000 square meters, are centrally located in top tourist destinations for airline passengers in the Asia-Pacific region, the United States and Japan, but also in Europe, with the 2016 opening of *T Fondaco dei Tedeschi* in Venice, Italy. Each space combines in one site, close to the hotels where travelers are lodged, two different but complementary sales spaces: a general luxury product offering (including perfumes and cosmetics, fashion and accessories) and a gallery of prestigious boutiques, some of which belong to the Financière Agache group (including Louis Vuitton, Hermès, Bvlgari, Tiffany, Christian Dior, Chanel, Prada, Fendi and Celine).

While focusing on the development of its *Gallerias*, which are its main source of growth, DFS maintains its strategic interest in the airport concessions if these can be obtained or renewed under good financial terms. DFS is currently present at some twenty international airport sites in the Asia-Pacific, the United States, Japan and Abu Dhabi.

Starboard Cruise Services

Starboard Cruise Services, acquired by the Group in 2000, is an American company founded in 1958, the world leader in the sale of duty-free luxury items on board cruise ships. It provides services to nearly 90 ships representing several cruise lines. It also publishes tourist reviews, catalogs and advertising sheets available on board.

5.2. SELECTIVE RETAIL

Sephora

Sephora, founded in 1969, has developed over time a perfume and beauty format that combines direct access and customer assistance. This concept led to a new generation of stores with a sober and luxurious architecture, designed in three spaces dedicated to perfumes, makeup and skincare respectively. Based on the quality of this concept, Sephora has gained the confidence of selective perfume and cosmetics brands. In addition, Sephora has offered products sold under its own brand name since 1995 and has developed a line of exclusive products thanks to its close ties with brands selected for their bold ideas and creativity.

Since it was acquired by the Group in July 1997, Sephora has recorded rapid growth in Europe by opening new stores and acquiring companies that operated perfume retail chains. Sephora is present in 16 European countries. The Sephora concept also crossed the Atlantic in 1998, with a strong presence in the United States, the sephora.com website, and a store network in Canada. Sephora entered the Chinese market in 2005. The retailer also has locations in the Middle East, in Latin America, in Russia via the perfumes and cosmetics retail chain Ile de Beauté (wholly owned since 2016), and in Southeast Asia, in particular thanks to the 2015 acquisition of the e-commerce site Luxola, which operates in eight countries throughout the region.

Sephora is at the forefront of the retail industry's unstoppable digital transformation. Sephora builds on the complementarity of its in-store and online shopping and on its strong presence on the social networks to increase the touch points and opportunities for shared moments with its customers. With its websites, digitally equipped stores, customer mobile apps and beauty consultants, the Maison creates an omnichannel beauty experience that is increasingly innovative and personalized and offers customers an interactive, seamless, flexible shopping journey.

Le Bon Marché

Le Bon Marché Rive Gauche – the world's first department store – opened its doors in 1852, with entrepreneur Aristide Boucicaut at the helm. Both a forerunner and trendsetter, Le Bon Marché Rive Gauche presents a selection of sophisticated and exclusive labels, in a space with a strong architectural concept. Customers from around the world looking for a true Parisian experience rub shoulders with locals, all drawn to the department store's unique vibe and the quality of its service. The sole department store located on the left bank in Paris, it was acquired by the Group in 1998.

La Grande Épicerie de Paris

Newly inaugurated in late 2013, **La Grande Épicerie** de Paris is a trailblazing gourmet food emporium. La Grande Épicerie de Paris offers its customers a culinary shopping experience like no other, made possible by the expertise of the artisans, architects and artists selected for this project, and has become an absolute must for food lovers. In 2017, La Grande Épicerie de Paris – historically located on the ground floor of Le Bon Marché – added a location on Rue de Passy in the 16th arrondissement of Paris, in premises formerly occupied by Franck et Fils.

5.3. COMPETITIVE POSITION

Following the recent round of market consolidation, DFS is now the fourth-largest travel retail operator (according to a Bain study based on data as of end-2016). In the United States, Sephora has been the market leader since the first quarter of 2016, and has since continued to make headway. In France, where the prestige beauty product market (excluding e-commerce) declined by 3.3% in 2018 compared with 2017, Sephora slightly increased its market share. In addition, Sephora continued to gain market share in Canada, where it has led the market since 2015, and in Italy.

5.4. HIGHLIGHTS OF 2018 AND OUTLOOK

5.4.1. Highlights

All of the Group's Selective Retailing brands showed strong momentum, helping the business group achieve organic revenue growth of 6% in 2018. Excluding the impact of the termination of DFS's airport concessions in Hong Kong at the end of 2017, this growth came to 12%.

Sephora saw another year of strong growth – especially in North America, Asia and the Middle East – and gained market share. Sephora – which connects with its customers through more than 1,900 stores and 29 online shops, and is present in 34 countries – was named Retailer of the Year at the 2018 World Retail Congress, recognizing its global success, its innovative momentum and its lead in the digital sphere. Sephora continued its expansion with the opening of more than a hundred stores worldwide, including superb locations on Nanjing Road in Shanghai, Zeil in Frankfurt and at the Saint-Lazare train station in Paris; the launch of online sales in Germany; the new version of the completely redesigned sephora.fr website; and a dazzling array of digital innovation on the sephora.cn website. The brand successfully oversaw the opening of its first points of sale under the Sephora trade name in Russia and the renovation of its iconic stores in SoHo (New York) and Milan's Duomo district (Italy). It continued to personalize the customer experience as part of its ongoing quest to captivate and satisfy beauty fans around the world. Thanks to its dedicated staff, Sephora's boutiques offer beauty and makeup services that are constantly being updated, based around its *Beauty Hubs*, as well as a plethora of experiences available throughout the store. In addition, across its entire digital ecosystem, interactive mobile app features let users extend the in-store experience and connect with its community of self-proclaimed beauty addicts. This personalized, omnichannel relationship helps provide bespoke support to each and every one of its customers as they discover the iconic brands, wide range of new products and highly innovative exclusive collections that make up the Sephora offering.

Amidst an upturn in its markets, **DFS** saw strong revenue growth, buoyed by sales initiatives launched to win over international travelers, including high-impact marketing campaigns, in-store events and the introduction of new communication tools. It expanded its selection of products to meet the expectations of younger, more exacting travelers while showcasing the uniqueness of each destination. While major renovation work was completed in Sydney and Auckland, DFS continued to expand its presence in Macao with the opening of two stores devoted to beauty, bringing its store count to six in the city. A multi-brand fashion boutique designed to attract a millennial clientele was also inaugurated within the *T Galleria City of Dreams*. In Venice, the *T Fondaco dei Tedeschi* store turned in an excellent performance, boosted by a year-round program of events that make it an unrivaled venue for shopping and culture. The Siem Reap *T Galleria* in Cambodia also enjoyed strong momentum, with an offering that showcased the quality of local craftsmanship alongside luxury products.

Starboard Cruise Services maintained its position as the leading retailer of high-end brands on board cruise ships by expanding its presence in Asia. It further enhanced the appeal of its stores while improving the quality of its product offerings and the experiences it offers its customers.

Le Bon Marché continued on its strong growth trajectory during a very eventful year. The refinement, quality of service and selectivity on offer at the iconic department store on Paris' Left Bank continued to place it a cut above the rest for its French and international clientele, and its loyalty program was highly successful. The new children's department – the renovation of which was completed in the second half of the year – introduced "Les Récrés du Bon Marché", an ingenious new concept which is the first of its kind among department stores: fun workshops for children of all ages to enjoy while their parents shop in peace. Event highlights included the substantial media coverage of the exhibition of works by Argentinian artist Leandro Erlich in the beginning of the year, and the major success of the Los Angeles exhibition in the fall. La Grande Épicerie de Paris Rive Droite, which opened in late 2017, won over a new clientele. The 24 Sèvres digital platform continued its targeted growth, enriching its range with exclusive offerings including a capsule collection in collaboration with designer Inès de la Fressange.

5.4.2. Outlook

In 2019, **Sephora** will continue to design and offer its customers the best omnichannel experience in the beauty world, while maintaining its focus on its core strengths: its dedicated, professional staff; the expansion and renovation of its store network; its rich, innovative range of products and services; and its desire to keep surprising its customers and give them an ever more personalized connection at its stores and throughout its digital ecosystem. **DFS** enters 2019 with confidence, while remaining vigilant to the key issues inherent in its business segment, such as currency fluctuations and potential changes in the sales environment. Work is underway to expand and enhance the flagship store on Canton Road in Hong Kong and to renovate the Four Seasons Hotel Macao store. The brand will expand its store network, particularly in Asia, and step up its digital initiatives to better serve travelers. **Le Bon Marché** will continue to cultivate its uniqueness, its creative and exclusive offerings, and its dual identity as both a trendsetting retail destination and a venue for art and culture. The opening of a VIP lounge will round out the range of perks available to its customers. **La Grande Épicerie de Paris** will keep working to enhance its appeal and build customer loyalty on both sides of the Seine.

6. Other activities

The Other activities segment includes the media division managed by the Les Echos group, La Samaritaine, the Dutch luxury yacht maker Royal Van Lent, Cheval Blanc hotel operations and since 2013, the Cova patisserie business, based in Milan (Italy).

Les Echos group

The Financière Agache group acquired the **Les Echos** group in 2007. The Les Echos group includes Les Echos, France's leading financial newspaper, LesEchos.fr, the top business and financial website in France, the business magazine Enjeux-Les Echos, as well as other specialized business services. Les Echos group also holds several other financial and cultural media titles that were previously owned directly by the Group: Investir – Le Journal des Finances, resulting from the 2011 merger of two financial weeklies; Connaissance des Arts; and the French radio station Radio Classique. Les Echos group also publishes trade journals, with titles produced by SID Presse, and is active in the business-to-business segment, with the organizations Les Echos Formation and Les Echos Conférences, the trade show Le Salon des Entrepreneurs, and Eurostaf market studies. Since late 2015, Les Echos has also encompassed the Le Parisien daily newspaper and its Aujourd'hui en France magazine.

La Samaritaine

La Samaritaine is a real estate complex located at the heart of Paris, beside the Seine river. It comprised a department store in addition to leased office and retail space until 2005 when the department store was closed for safety reasons. La Samaritaine is undergoing a large-scale renovation project which adheres to an innovative environmental approach and views diversity, a concept dear to the department store's founders, as central to its raison d'être. Several activities will be grouped together in its buildings on the two blocks between the Quai du Louvre and the Rue de Rivoli: a department store, a 72-room Cheval Blanc luxury hotel, 96 social housing units, a daycare center and offices.

Royal Van Lent

Founded in 1849, **Royal Van Lent** designs and builds luxury yachts according to customers' specifications and markets them under the Feadship brand, one of the most prestigious in the world for yachts over 50 meters.

LVMH Hotel Management

LVMH Hotel Management is the spearhead of the Group's business development in hotels, under the Cheval Blanc brand. The Cheval Blanc approach, based on the founding values of craftsmanship, exclusivity, creativity and hospitality, is applied at all of its hotels, whether proprietary or independently managed. Cheval Blanc has locations in Courchevel (France), Saint-Barthélemy (French Antilles) with the hotel acquired in 2013, the Maldives and Saint-Tropez.

Le Jardin d'Acclimatation

Imagined as an emblem of modern Paris by Napoleon III and opened in 1860, the **Jardin d'Acclimatation** is the oldest leisure and amusement park in France. LVMH has held the concession to the park since 1984. Following the renewal of this concession in 2016, an ambitious modernization project was launched, culminating in the reopening of the entirely refurbished and redesigned park in June 2018.

Management Report of the Board of Directors – Financière Agache Group

3. BUSINESS AND FINANCIAL REVIEW

1. Business and financial review

1.1. COMMENTS ON THE CONSOLIDATED INCOME STATEMENT

1.1.1. Analysis of revenue

(EUR millions and as %)	First half of 2018	Second half of 2018	2018
Revenue	21,751	25,080	46,831
Growth at actual exchange rates	5%	9%	7%
Organic growth	12%	10%	11%
Changes in the scope of consolidation	-	-	-
Exchange rate fluctuations [(a)]	- 8%	-	- 4%

(a) The principles used to determine the net impact of exchange rate fluctuations on the revenue of entities reporting in foreign currencies and the net impact of changes in the scope of consolidation are described on page 33.

Revenue for fiscal year 2018 was 46,831 million euros, up 7% at actual exchange rates over the previous fiscal year. Average exchange rates for many of the Group's invoicing currencies – the US dollar in particular – weakened against the euro, which had a negative 4-point impact on revenue growth.

The sale of the Christian Dior Couture segment to LVMH by Christian Dior SE on July 3, 2017 changed the presentation of the various business groups; information for Christian Dior Couture is presented within figures for the Fashion and Leather Goods business group for all the periods presented. This sale, which took place within the Financière Agache group, had no impact on changes in scope for fiscal year 2018.

On a constant consolidation scope and currency basis, revenue increased by 11%.

Revenue by invoicing currency

(as %)	2018	2017	2016
Euro	22	23	23
US dollar	29	30	31
Japanese yen	7	7	7
Hong Kong dollar	6	6	6
Other currencies	36	34	33
TOTAL	**100**	**100**	**100**

The breakdown of revenue by invoicing currency changed slightly compared to 2017: the contributions of the euro and the US dollar fell by 1 point each to 22% and 29%, respectively. The contributions of the Japanese yen and the Hong Kong dollar remained stable at 7% and 6%, respectively, while that of other currencies rose by 2 points to 36%.

Revenue by geographic region of delivery

(as %)	2018	2017	2016
France	10	10	10
Europe (excluding France)	19	19	18
United States	24	25	26
Japan	7	7	7
Asia (excluding Japan)	29	28	27
Other markets	11	11	12
TOTAL	**100**	**100**	**100**

By geographic region of delivery and compared to 2017, the relative contribution of Asia (excluding Japan) to Group revenue rose by 1 point to 29%, while that of the United States fell by 1 point to 24%. The relative contributions of France, Europe (excluding France), Japan and other markets remained stable at 10%, 19%, 7% and 11%, respectively.

Revenue by business group

	2018		2017		2016	
(EUR millions and as %)		%		%		%
Wines and Spirits	5,143	11	5,084	12	4,835	12
Fashion and Leather Goods	18,455	39	16,519	38	14,711	37
Perfumes and Cosmetics	6,092	13	5,560	13	4,953	13
Watches and Jewelry	4,123	9	3,805	9	3,468	9
Selective Retailing	13,646	29	13,311	30	11,973	30
Other activities and eliminations	(628)	-	(612)	-	(437)	-
TOTAL	**46,831**	**100**	**43,667**	**100**	**39,503**	**100**

By business group, the breakdown of Group revenue changed slightly compared to 2017. The contribution of Fashion and Leather Goods rose 1 point to 39%, while the contributions of Wines and Spirits and Selective Retailing decreased by 1 point each to 11% and 29%, respectively. The contributions of Perfumes and Cosmetics and Watches and Jewelry remained stable at 13% and 9%, respectively.

Revenue for Wines and Spirits increased by 5% on a constant consolidation scope and currency basis. Impacted by a negative exchange rate impact of 4 points, published revenue for this business group increased by 1%. This performance was largely driven by higher prices and a favorable product mix. Demand remained very strong in Asia, particularly in China, with the latter still the second-largest market for the Wines and Spirits business group.

Fashion and Leather Goods posted organic growth of 15%. This growth, tempered by the negative 3-point exchange rate impact, came to 12% based on published figures. This business group's performance was driven by the very solid momentum achieved by Louis Vuitton and Christian Dior Couture, as well as by Celine, Loro Piana, Kenzo, Loewe, Fendi and Berluti, which confirmed their potential for strong growth.

Revenue for Perfumes and Cosmetics increased by 14% on a constant consolidation scope and currency basis, and by 10% based on published figures. This growth and the related market share gains confirmed the effectiveness of the value-enhancing strategy resolutely pursued by the Group's brands in the face of competitive pressures. The Perfumes and Cosmetics business group saw very significant revenue growth across all regions, Asia in particular.

Revenue for Watches and Jewelry increased by 12% on a constant consolidation scope and currency basis, and by 8% based on published figures. The business group benefited from the good performance of Bvlgari; Chaumet, Hublot and Fred saw strong gains. Asia and the United States were the most buoyant regions.

Revenue for Selective Retailing increased by 6% on a constant consolidation scope and currency basis, and by 3% based on published figures. It is worth noting that this performance was achieved in spite of the negative impact of the termination of the Hong Kong airport concessions operated by DFS at the close of 2017. The business group's performance was driven by Sephora, which saw appreciable growth in revenue, and by the return of Chinese tourists to regions where DFS has many locations.

1.1.2. Profit from recurring operations

(EUR millions)	2018	2017	2016
Revenue	46,831	43,667	39,503
Cost of sales	(15,630)	(15,106)	(13,555)
Gross margin	31,201	28,561	25,948
Marketing and selling expenses	(17,752)	(16,958)	(15,636)
General and administrative expenses	(3,472)	(3,254)	(3,068)
Income/(loss) from joint ventures and associates	23	-	6
Profit from recurring operations	**10,000**	**8,349**	**7,250**
Current operating margin *(%)*	**21.4**	**19.1**	**18.4**

The Group achieved a gross margin of 31,201 million euros, up 9% compared to 2017. As a percentage of revenue, the gross margin was 67% in 2018, compared with 65% in 2017.

Marketing and selling expenses, which totaled 17,752 million euros, were up 5%. This increase was mainly due to the development of retail networks but also to higher communications investments, especially in Perfumes and Cosmetics.

The level of these expenses as a percentage of revenue fell by 0.9 points to 38%. Among these marketing and selling expenses, advertising and promotion costs amounted to 12% of revenue for fiscal year 2018.

General and administrative expenses totaled 3,472 million euros, up 7%. They amounted to 7% of revenue, remaining stable with respect to 2017.

The geographic breakdown of stores was as follows:

(number of stores)	Dec. 31, 2018	Dec. 31, 2017 [(a)]	Dec. 31, 2016 [(b)]
France	514	508	507
Europe (excluding France)	1,153	1,156	1,106
United States	783	754	730
Japan	422	412	403
Asia (excluding Japan)	1,289	1,151	1,055
Other markets	431	393	347
TOTAL	**4,592**	**4,374**	**4,148**

(a) Including 57 stores for Rimowa.
(b) Excluding Rimowa, whose network was integrated in 2017.

Profit from recurring operations by business group

Profit from recurring operations *(EUR millions)*	**2018**	**2017**	**2016**
Wines and Spirits	1,629	1,558	1,504
Fashion and Leather Goods	5,943	5,022	4,125
Perfumes and Cosmetics	676	600	551
Watches and Jewelry	703	512	458
Selective Retailing	1,382	1,075	919
Other activities and eliminations	(333)	(418)	(307)
TOTAL	**10,000**	**8,349**	**7,250**

The Group's profit from recurring operations was 10,000 million euros, up 20%. The Group's current operating margin as a percentage of revenue was 21.4%, up 2.2 points compared to 2017.

Wines and Spirits

(EUR millions)	**2018**	**2017**	**2016**
Revenue	5,143	5,084	4,835
Profit from recurring operations	1,629	1,558	1,504
Current operating margin *(%)*	31.7	30.6	31.1

Profit from recurring operations for Wines and Spirits was 1,629 million euros, up 5% compared with 2017. Champagne and Wines contributed 649 million euros while Cognacs and Spirits accounted for 980 million euros. This performance was the result of both sales volume growth and a favorable impact of the mix of products sold. The current operating margin as a percentage of revenue for this business increased by 1.1 points to 31.7%.

Fashion and Leather Goods

(EUR millions)	**2018**	**2017**	**2016**
Revenue	18,455	16,519	14,711
Profit from recurring operations	5,943	5,022	4,125
Current operating margin *(%)*	32.2	30.4	28.0

Fashion and Leather Goods posted profit from recurring operations of 5,943 million euros, up 18% compared with 2017. This sharp increase reflected the very strong performance of certain brands. Louis Vuitton maintained its exceptional level of profitability and Christian Dior Couture had a very good year. Loewe and Loro Piana confirmed their profitable growth momentum while Marc Jacobs, Pink Shirtmaker and Pucci improved their results. The business group's current operating margin as a percentage of revenue grew by 1.8 points to 32.2%.

Perfumes and Cosmetics

(EUR millions)	2018	2017	2016
Revenue	6,092	5,560	4,953
Profit from recurring operations	676	600	551
Current operating margin *(%)*	11.1	10.8	11.1

Profit from recurring operations for Perfumes and Cosmetics was 676 million euros, up 13% from 2017. This growth was driven by Parfums Christian Dior, Guerlain, Fresh, Parfums Givenchy and Benefit, which posted improved results thanks to the success of their flagship product lines and strong innovative momentum. The business group's current operating margin as a percentage of revenue grew by 0.3 points to 11.1%.

Watches and Jewelry

(EUR millions)	2018	2017	2016
Revenue	4,123	3,805	3,648
Profit from recurring operations	703	512	458
Current operating margin *(%)*	17.1	13.5	13.2

Profit from recurring operations for Watches and Jewelry was 703 million euros, up 37% compared with 2017. This increase was the result of strong performance at Bvlgari, Hublot and Chaumet. Current operating margin as a percentage of revenue rose 3.6 points to 17.1%.

Selective Retailing

(EUR millions)	2018	2017	2016
Revenue	13,646	13,311	11,973
Profit from recurring operations	1,382	1,075	919
Current operating margin *(%)*	10.1	8.1	7.7

Profit from recurring operations for Selective Retailing was 1,382 million euros, up 29% from 2017. This improvement was driven by DFS, which benefited from its strong commercial performance and from the favorable impact of the termination of the Hong Kong airport concessions. The business group's current operating margin as a percentage of revenue grew by 2 points to 10.1%.

Other activities

The profit/(loss) from recurring operations of "Other activities and eliminations" was a loss of 333 million euros, representing an improvement relative to 2017. In addition to headquarters expenses, this heading includes the results of the Media division, Royal Van Lent yachts, and hotel and real estate activities.

1.1.3. Other income statement items

(EUR millions)	2018	2017 [(a)]	2016 [(a)]
Profit from recurring operations	10,000	8,349	7,250
Other operating income and expenses	(126)	(179)	(125)
Operating profit	9,874	8,170	7,125
Net financial income/(expense)	(441)	(140)	(315)
Income taxes	(2,528)	(2,266)	(2,116)
Net profit before minority interests	**6,905**	**5,764**	**4,694**
Minority interests	(4,406)	(3,774)	(3,348)
Net profit, Group share	**2,499**	**1,990**	**1,346**

(a) The financial statements as of December 31, 2017 and December 31, 2016 have been restated to reflect in particular the retrospective application with effect from January 1, 2016 of IFRS 9 Financial Instruments. See Note 1.2 to the consolidated financial statements.

"Other operating income and expenses" amounted to a net expense of 126 million euros, compared with a net expense of 179 million euros in 2017. In 2018, other operating income and expenses included 117 million euros in amortization and impairment charges for brands and goodwill. The remainder was essentially comprised of expenses relating to acquisitions.

The Group's operating profit was 9,874 million euros, up 21% compared with 2017.

The net financial expense for the fiscal year was 441 million euros, compared with a net financial expense (restated to reflect the application of IFRS 9) of 140 million euros as of December 31, 2017. This item comprised:

- the aggregate cost of net financial debt, which totaled 204 million euros, compared to 186 million in 2017 (after restatement to reflect the application of IFRS 9);
- other financial income and expenses, which amounted to a net expense of 261 million euros, compared to net income of 26 million euros in 2017 (after restatement to reflect the application of IFRS 9). The expense related to the cost of foreign exchange derivatives was 175 million euros, versus 169 million euros a year earlier. Other income and expenses related to financial instruments – which mainly arose from capital gains on sales and changes in market value of available for sale financial assets – amounted to a net expense of 99 million euros, compared to net income of 214 million euros in 2017.

The Group's effective tax rate was 27%, down 1 point relative to 2017. This decrease primarily reflected the downward trend in corporate tax rates worldwide, particularly in the United States.

Profit attributable to minority interests was 4,406 million euros, compared with 3,774 million euros in 2017. Minority interests essentially comprise LVMH SE shareholders with the exception of Financière Agache's controlling interest, i.e. shareholders owning 57% of LVMH SE, shareholders of Christian Dior SE (5%) other than Financière Agache and Semyrhamis, the controlling shareholders, and minority interests in Moët Hennessy and DFS.

The Group's share of net profit was 2,499 million euros, compared with 1,990 million euros in 2017. This equated to 5.3% of revenue in 2018, compared with 4.6% in 2017, up 0.7 points. The Group share of net profit in 2018 was up 26% compared to the Group share of net profit in 2017.

Comments on the determination of the impact of exchange rate fluctuations and changes in the scope of consolidation

The impact of exchange rate fluctuations is determined by translating the financial statements for the fiscal year of subsidiaries with a functional currency other than the euro at the prior fiscal year's exchange rates, without any other restatements.

The impact of changes in the scope of consolidation is determined by deducting:

- for the fiscal year's acquisitions, revenue generated during the fiscal year by the acquired entities, as of their initial consolidation;
- for the prior fiscal year's acquisitions, revenue for the fiscal year generated over the months during which the acquired entities were not consolidated in the prior fiscal year.

And by adding:

- for the fiscal year's disposals, prior fiscal year revenue generated over the months during which the divested entities were no longer consolidated in the fiscal year;
- for the prior fiscal year's disposals, revenue generated in the prior fiscal year by the divested entities.

Profit from recurring operations is restated in accordance with the same principles.

1.2. COMMENTS ON THE CONSOLIDATED BALANCE SHEET

1.2.1. Restatements in the balance sheet as of December 31, 2017

The balance sheet as of December 31, 2017 has been restated primarily to reflect the impact of the retrospective application of IFRS 9 Financial Instruments as of January 1, 2016: see Note 1.2 to the consolidated financial statements.

1.2.2. Balance sheet as of December 31, 2018

ASSETS *(EUR billions)*	Dec. 31, 2018	Dec. 31, 2017 (1)	Change
Property, plant and equipment and intangible assets	43.2	41.8	+1.4
Other non-current assets	6.0	5.8	+0.2
Non-current assets	**49.2**	**47.6**	**+1.6**
Inventories	12.7	11.1	+1.6
Other current assets	18.6	17.6	+1.0
Current assets	**31.3**	**28.7**	**+2.6**
ASSETS	**80.5**	**76.3**	**+4.2**

LIABILITIES AND EQUITY *(EUR billions)*	Dec. 31, 2018	Dec. 31, 2017 (1)	Change
Equity	30.8	26.9	+3.9
Long-term borrowings	9.3	12.3	-3.0
Other non-current liabilities	17.2	17.0	+0.2
Equity and non-current liabilities	**57.3**	**56.2**	**+1.1**
Short-term borrowings	11.4	9.6	+1.8
Other current liabilities	11.8	10.5	+1.3
Current liabilities	**23.2**	**20.1**	**+3.1**
LIABILITIES AND EQUITY	**80.5**	**76.3**	**+4.2**

Financière Agache's consolidated balance sheet totaled 80.5 billion euros as of year-end 2018, up 4.2 billion euros, representing a 5.5% increase from year-end 2017. Non-current assets rose by 1.6 billion euros to reach 49.2 billion euros and represented 61% of total assets, compared with 62% as of year-end 2017.

Property, plant and equipment and intangible assets grew by 1.4 billion euros, including 1.0 billion euros related to investments made during the year, net of depreciation and amortization charges as well as disposals. The comments on the cash flow statement provide information on the year's investments. Exchange rate fluctuations between the beginning and end of the fiscal year – mainly involving the US dollar and the Swiss franc against the euro – had an additional positive 0.4 billion euro impact on the value of property, plant and equipment and intangible assets.

Other non-current assets increased slightly by 0.2 billion euros, amounting to 6.0 billion euros. This increase corresponds to acquisitions (net of disposals) of non-current available for sale financial assets for 0.4 billion euros (including Belmond shares for 0.3 billion euros), and to the increase in deferred tax assets for 0.2 billion euros, while loans granted to affiliated companies decreased by 0.4 billion euros.

As of December 31, 2018, inventories were up 1.6 billion euros with respect to December 31, 2017, with 1.7 billion euros related to changes in levels of business activity (discussed in further detail in the comments on the cash flow statement) and 0.1 billion euros resulting from exchange rate fluctuations, mainly involving the US dollar. Conversely, net provisions for inventory impairment had a negative impact of 0.3 billion euros.

Other current assets grew by 1.0 billion euros, including 1.2 billion euros related to the increase in the cash balance, 0.5 billion euros related to the increase in trade accounts receivable, and 0.4 billion euros related to the increase in other assets. Conversely, income tax receivables decreased by 0.3 billion euros, the market value of derivatives decreased by 0.4 billion euros and current available for sale financial assets decreased by 0.4 billion euros.

(1) The financial statements as of December 31, 2017 have been restated to reflect in particular the retrospective application with effect from January 1, 2016 of IFRS 9 Financial Instruments. See Note 1.2 to the consolidated financial statements.

Other non-current liabilities remained stable, totaling 17.2 billion euros versus 17.0 billion euros in 2017, with this 0.2 billion euro increase mainly arising from the fair value adjustment of purchase commitments for minority interests' shares.

Other current liabilities increased by 1.3 billion euros, amounting to 11.8 billion euros, as a result of the 1.6 billion euro increase in trade accounts payable and other operating payables. Conversely, income tax payable decreased by 0.3 billion euros.

Net financial debt and equity

(EUR billions and as %)	Dec. 31, 2018	Dec. 31, 2017	Change
Long-term borrowings	9.3	12.3	-3.0
Short-term borrowings and derivatives	11.5	9.5	+2.0
Gross borrowings after derivatives	**20.8**	**21.8**	**- 1.0**
Cash, cash equivalents and other [(a)]	(12.9)	(11.8)	- 1.1
Adjusted net financial debt (excluding the acquisition of Belmond shares)	**7.9**	**10.0**	**- 2.1**
Total equity (Group share and minority interests)	**30.8**	**26.9**	**+3.9**
Adjusted net financial debt/Total equity ratio	**25.6%**	**37.1%**	**-11.5 pts**

(a) The adjusted net financial debt (excluding the acquisition of Belmond shares) presented above helps show the impact of the Group's performance in 2018 on the level of net financial debt at the balance sheet date. See Note 18 to the consolidated financial statements.

The ratio of (adjusted) net financial debt to total equity (including minority interests) fell 11.5 points from 37.1% as of December 31, 2017 to 25.6% as of December 31, 2018. This decrease was due to the combined effect of the 2.1 billion euro reduction in adjusted net financial debt and the 3.9 billion euro increase in equity. Cash generated during the fiscal year helped to substantially reduce net debt.

Total equity (Group share and minority interests) amounted to 30.8 billion euros as of December 31, 2018, up 3.9 billion euros compared to December 31, 2017. This change primarily reflects the strong earnings achieved by the Group, distributed only partially, representing 2018 profit net of dividends of 4.7 billion euros. Exchange rate fluctuations had a positive impact of 0.3 billion euros, mainly related to the appreciation of the US dollar and the Swiss franc against the euro between December 31, 2017 and December 31, 2018. Conversely, the change in revaluation reserves had a negative impact of 0.3 billion euros, mainly due to the decrease in unrealized gains on hedges of future foreign currency cash flows. The impact of changes in purchase commitments for minority interests' shares and of acquisition and disposal of minority interests' shares was negative, for 0.3 billion euros and 0.7 billion euros respectively. As of December 31, 2018, total equity was equal to 38% of total assets, compared to 35% as of year-end 2017.

Gross borrowings after derivatives totaled 20.8 billion euros as of year-end 2018, down 1.0 billion euros compared with year-end 2017, including the negative 1.3 billion euro impact of net repayments made during the fiscal year; this decrease was partially offset by fair value adjustments of borrowings and derivatives, which had a positive 0.3 billion euro impact. During the fiscal year, repayments of loans and borrowings totaled 2.7 billion euros, including 1.8 billion euros for the repayment of a tranche of the bond issue completed by LVMH in 2017. Conversely, short-term negotiable debt securities outstanding increased by 1.3 billion euros in 2018. No bonds were issued during the fiscal year.

Cash, cash equivalents, current and non-current available for sale financial assets used to hedge financial debt, and the Belmond shares acquired in December 2018 after the announcement of LVMH's acquisition of Belmond totaled 12.9 billion euros at the end of the fiscal year, up 1.1 billion euros compared to year-end 2017.

As of year-end 2018, the Group's undrawn confirmed credit lines amounted to 7.4 billion euros, exceeding the outstanding portion of its short-term negotiable debt securities programs, which came to 4.0 billion euros as of December 31, 2018.

1.3. COMMENTS ON THE CONSOLIDATED CASH FLOW STATEMENT

1.3.1. Restatements in the cash flow statement as of December 31, 2017

The cash flow statement as of December 31, 2017 has been restated to reflect the impact of the retrospective application of IFRS 9 Financial Instruments as of January 1, 2016: see Note 1.2 to the consolidated financial statements.

1.3.2. Cash flow statement as of December 31, 2018

(EUR millions)	2018	2017 (1)	Change
Cash from operations before changes in working capital	**11,940**	**10,543**	**1,397**
Cost of net financial debt: Interest paid	(191)	(161)	(30)
Tax paid on operating activities	(2,301)	(2,858)	557
Net cash from operating activities before changes in working capital	**9,448**	**7,524**	**1,924**
Change in working capital	(1,105)	(521)	(584)
Operating investments	(3,038)	(2,516)	(522)
Free cash flow	**5,305**	**4,487**	**818**
Financial investments	(537)	(469)	(68)
Transactions relating to equity	(3,106)	(8,975)	5,869
Change in cash before financing activities	**1,662**	**(4,957)**	**6,619**

In 2018, cash from operations before changes in working capital totaled 11,940 million euros, up 13% from 10,543 million euros a year earlier. Net cash from operating activities before changes in working capital (i.e. after interest and tax paid) amounted to 9,448 million euros, up 26% from fiscal year 2017.

Interest paid totaled 191 million euros, higher than in 2017, primarily as a result of the financing set up as part of the public offer for the Christian Dior shares not held by the Arnault Family Group (see Notes 2 and 18 to the consolidated financial statements).

Tax paid on operating activities came to 2,301 million euros, 19% less than the 2,858 million euros paid a year earlier, as a result of the downward trend in corporate tax rates worldwide, particularly in the United States, and the non-recurrence of certain exceptional tax items.

The 1,105 million euro increase in the working capital requirement was higher than the 521 million euro increase observed a year earlier. The cash requirement relating to the increase in inventories amounted to 1,739 million euros, versus 1,045 million euros a year earlier, mainly due to growth in the Fashion and Leather Goods and Selective Retailing businesses. The increase in trade accounts payable and tax and social security liabilities – which was higher in 2018 than in 2017 (805 million euros in 2018 versus 657 million euros in 2017) – helped to partly finance the cash requirement related to the increase in inventories.

Operating investments net of disposals resulted in an outflow of 3,038 million euros in 2018, compared to 2,516 million euros a year earlier, up 522 million euros. These mainly included investments by the Group's brands – notably Sephora, Louis Vuitton, DFS, Parfums Christian Dior, Bvlgari and Christian Dior Couture – in their retail networks. They also include investments by the champagne houses, Hennessy, Louis Vuitton and Parfums Christian Dior in their production equipment; investments related to the La Samaritaine and Jardin d'Acclimatation projects; and various real estate investments.

In 2018, 537 million euros (amount of acquisitions net of disposals and tax) were spent on financial investments, including 274 million euros relating to the acquisition of Belmond shares in late December 2018, after the announcement of LVMH's acquisition of Belmond.

Transactions relating to equity generated an outflow of 3,106 million euros. This included 222 million euros in cash dividends paid by Financière Agache to its shareholders, and 1,936 million euros in dividends paid to minority shareholders in consolidated subsidiaries (essentially the non-controlling shareholders of LVMH SE and minority interests in Christian Dior, DFS and Diageo as a result of its 34% stake in Moët Hennessy). Acquisitions of minority interests generated an additional outflow of 921 million euros (see Note 2 to the consolidated financial statements).

All operating, investment and equity-related activities thus generated an inflow of 1,662 million euros in the fiscal year, 623 million euros of which was used to pay down the Group's debt.

After a positive impact of 67 million euros from the change in the cumulative translation adjustment relating to cash flows, the cash balance at the fiscal year-end stood at 8,937 million euros, 1,106 million euros higher than its level as of December 31, 2017.

(1) The financial statements as of December 31, 2017 have been restated to reflect in particular the retrospective application with effect from January 1, 2016 of IFRS 9 Financial Instruments. See Note 1.2 to the consolidated financial statements.

2. Financial policy

During the fiscal year, the Group's financial policy focused on the following areas:

- improving the Group's financial structure and flexibility, as evidenced by the following key indicators:
  - significant increase in equity: Equity (including minority interests), before appropriation of profit, was up 15% to 30.8 billion euros as of year-end 2018, compared to 26.9 billion euros a year earlier,
  - the Group's access to liquidity, notably through its short-term negotiable debt securities programs (euro-denominated commercial paper, Negotiable European Commercial Paper and US dollar-denominated commercial paper), which benefit from favorable rates and spreads, as well as the option to call on bond markets for significant amounts over medium/long-term maturities, with issue spreads that remained low in 2018,
  - the substantial level of cash and cash equivalents with a diversified range of top-tier banking partners and short-term money market funds,
  - the Group's financial flexibility, facilitated by a significant reserve of undrawn confirmed credit lines totaling 7.4 billion euros, including a 2.5 billion euro syndicated loan for LVMH SE with a remaining term to maturity of five years;
- maintaining a prudent foreign exchange and interest rate risk management policy designed primarily to hedge the risks generated directly and indirectly by the Group's operations and to hedge its debt;
- greater concentration of Group liquidity owing to the rollout of cash pooling practices worldwide, ensuring the fluidity of cash flows within the Group and optimal management of surplus cash. As a rule, the Group applies a diversified short-term and long-term investment policy;
- pursuing a dynamic policy of dividend payouts to Financière Agache shareholders and the Group's minority interests, in line with the Group's operating and financial performance. Accordingly, final and interim dividends authorized for payment to minority interests of the consolidated subsidiaries, chief among them LVMH SE and Christian Dior SE, amounted to 2.2 billion euros;
- net debt (adjusted to reflect the value of Belmond shares acquired at the end of 2018; see Note 18 to the consolidated financial statements) came to 7.9 billion euros as of end-2018, as against 10.0 billion euros a year earlier. Net debt thus declined by 2.1 billion euros, owing to high levels of net cash from operating activities and operating investments (free cash flow) in 2018;
- with regard to foreign exchange risks, the Group continued to hedge the risks of its exporting companies by buying options or collars, which protect against the negative impact of currency depreciation while retaining some of the gains in the event of currency appreciation. The US dollar and Japanese yen weakened against the euro at the beginning of the 2018 fiscal year, before strengthening significantly later in the year. The hedging strategies resulted in exchange rates for the US dollar and the Japanese yen better than the respective average exchange rates over the year, and for the pound sterling the hedged exchange rate was in line with the average for the year.

3. Operating investments

3.1. COMMUNICATION AND PROMOTION EXPENSES

The Group's total investments in communication, in absolute values and as a percentage of revenue, were as follows:

Communication and promotion expenses	2018	2017	2016
In millions of euros	5,518	4,979	4,482
As % of revenue	11.8	11.4	11.3

These expenses mainly correspond to advertising campaign costs, especially for the launch of new products, public relations and promotional events, and expenses incurred by marketing teams responsible for all of these activities.

3.2. RESEARCH AND DEVELOPMENT COSTS

The Group's research and development investments were as follows:

(EUR millions)	2018	2017	2016
Research and development costs	130	130	113

Most of these amounts cover scientific research and development costs for skincare and makeup products of the Perfumes and Cosmetics business group.

3.3. INVESTMENTS IN PRODUCTION FACILITIES AND RETAIL NETWORKS

Apart from investments in communication, promotion and research and development, operating investments are geared towards improving and developing retail networks as well as guaranteeing adequate production capabilities.

Purchases of property, plant and equipment and intangible assets were as follows, in absolute values and as a percentage of the Group's cash from operations before changes in working capital:

Purchase of intangible assets and property, plant and equipment	2018	2017	2016
In millions of euros	2,990	2,538	2,427
As % of cash from operations before changes in working capital	25	24	27

Following the model of the Group's Selective Retailing companies which directly operate their own stores, Louis Vuitton distributes its products exclusively through its own stores. The products of the Group's other brands are marketed by agents, wholesalers, or distributors in the case of wholesale business, and by a network of directly operated stores or franchises for retail sales.

In 2018, apart from acquisitions of property assets, operating investments mainly related to points of sale, with the Group's total number of stores increasing from 4,374 to 4,592. In particular, Sephora continued to expand its worldwide retail network, which reached 1,886 stores as of end-2018, up from 1,825 as of end-2017.

In Wines and Spirits, in addition to necessary replacements of barrels and production equipment, investments in 2018 were related to ongoing investments in Champagne (initiated in 2012) as well as the start of construction on a new packaging and shipping site at Hennessy.

4. Main locations and properties

4.1. PRODUCTION

Wines and Spirits

The surface areas of vineyards in France and abroad that are owned by the Group are as follows:

(in hectares)	2018 Total	2018 Of which: Under production	2017 Total	2017 Of which: Under production
France				
Champagne appellation	1,851	1,759	1,845	1,718
Cognac appellation	187	160	187	160
Vineyards in Bordeaux	194	156	194	152
Vineyards in Burgundy	12	12	11	11
International				
California (United States)	461	305	462	327
Argentina	1,661	945	1,677	967
Australia, New Zealand	685	626	681	603
Brazil	198	110	204	119
Spain	116	80	116	80
China	68	60	68	60
India	4	2	4	2

In the table above, the total number of hectares owned is determined exclusive of areas not usable for winegrowing. The difference between the total number of hectares owned and the number of hectares under production represents areas that are planted but not yet productive, and areas left fallow.

The Group also owns industrial and office buildings, wineries, cellars, warehouses, and visitor and customer centers for each of its main Wines and Spirits brands or production operations in France, the United Kingdom, the United States, Argentina, Australia, China, New Zealand, Brazil, India and Spain, as well as distilleries and warehouses in the Cognac region of France and in Poland. The total surface area is approximately 829,000 square meters in France and 305,000 square meters abroad.

Fashion and Leather Goods

Louis Vuitton owns twenty-one leather goods and shoe production facilities, in addition to its fragrance laboratory. Most of them are in France, but there are also major workshops located near Barcelona in Spain; in Fiesso, Italy; and in San Dimas, California. In 2018, Louis Vuitton completed the construction of its new workshop in Beaulieu-sur-Layon, France, which is due to open in early 2019. Overall, production facilities and warehouses owned by the Group represent approximately 199,000 square meters.

Fendi owns its manufacturing facility near Florence, Italy, as well as the Palazzo Fendi building in Rome, which houses its historic boutique and a hotel.

Celine also owns manufacturing and logistics facilities near Florence in Italy.

Berluti's shoe production factory in Ferrara, Italy is owned by the Group.

Rossimoda owns its office premises and its production facility in Vigonza in Italy.

Loro Piana has several manufacturing workshops in Italy as well as a site in Ulaanbaatar, Mongolia.

Rimowa owns its offices in Germany and has several production facilities in Germany, the Czech Republic and Canada. Overall, this property represents approximately 69,000 square meters.

Christian Dior Couture owns four manufacturing workshops (three in Italy and one in Germany) and a warehouse in France. Overall, this property represents approximately 30,000 square meters.

LVMH Métiers d'Arts owns several crocodile farms in Australia and the United States, with a total surface area of about 2,200,000 square meters, as well as a tannery covering about 13,500 square meters in France and a manufacturing facility totaling around 8,500 square meters in Italy.

The other facilities utilized by this business group are leased.

Perfumes and Cosmetics

Buildings located near Orléans in France housing the Group's research and development operations for Perfumes and Cosmetics as well as the manufacturing and distribution activities of Parfums Christian Dior are owned by Parfums Christian Dior and total 140,000 square meters. At the end of 2018, Parfums Christian Dior acquired a production facility in Chartres with a surface area of about 18,000 square meters.

Guerlain has a 20,000-square-meter production site in Chartres. The brand also owns another production site in Orphin, France, measuring 10,500 square meters.

Parfums Givenchy owns two plants in France, one in Beauvais and the other in Vervins, corresponding to a total surface area of 19,000 square meters. The second of these two facilities handles the production of both the Givenchy and Kenzo perfume lines. The Company also owns distribution facilities in Hersham, in the United Kingdom.

Make Up For Ever owns a 2,300-square-meter warehouse in Gennevilliers, France.

Watches and Jewelry

TAG Heuer has two workshops in Switzerland, one in Cornol and the other in Chevenez, together totaling about 4,700 square meters.

Zenith owns the manufacture which houses its movement and watch manufacturing facilities in Le Locle, Switzerland.

Hublot owns its production facilities in Switzerland and its office premises.

Bvlgari owns its production facilities in Italy and Switzerland.

The facilities operated by this business group's remaining brands (Chaumet and Fred) are leased.

4.2. DISTRIBUTION

Retail distribution of the Group's products is most often carried out through exclusive stores. Most of the stores in the Group's retail network are leased and only in exceptional cases does the Group own the buildings that house its stores.

Fashion and Leather Goods

Louis Vuitton owns certain buildings that house its stores in Tokyo, Hawaii, Guam, Seoul, Cannes, Saint-Tropez and Genoa, for a total surface area of approximately 8,000 square meters.

Christian Dior Couture owns certain buildings that house its stores in France, South Korea, Japan, England and Spain, for a total surface area of approximately 5,400 square meters.

Celine, Fendi and Berluti also own certain stores, in Paris and Italy.

Selective Retailing

Le Bon Marché group owns some of its stores, for a total area of approximately 78,000 square meters.

DFS owns its stores in Guam, the Mariana Islands, and Hawaii.

Other activities

The Group owns the Cheval Blanc hotel in Saint-Barthélemy and the Résidence de la Pinède in Saint-Tropez, France.

As of December 31, 2018, this store network broke down as follows:

(number of stores)	Dec. 31, 2018	Dec. 31, 2017 [(a)]	Dec. 31, 2016 [(b)]
France	514	508	507
Europe (excluding France)	1,153	1,156	1,106
United States	783	754	730
Japan	422	412	403
Asia (excluding Japan)	1,289	1,151	1,055
Other	431	393	347
TOTAL	**4,592**	**4,374**	**4,148**

(a) Including 57 stores for Rimowa.
(b) Excluding Rimowa, whose network was integrated in 2017.

(number of stores)	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016
Fashion and Leather Goods	1,852	1,769	1,708
Perfumes and Cosmetics	354	302	248
Watches and Jewelry	428	405	397
Selective Retailing: - *Sephora*	1,886	1,825	1,726
- *Other, including DFS*	54	55	52
Subtotal: Selective Retailing	**1,940**	**1,880**	**1,778**
Other	18	18	17
TOTAL	**4,592**	**4,374**	**4,148**

4.3. ADMINISTRATIVE SITES AND INVESTMENT PROPERTY

Most of the Group's administrative buildings are leased, with the exception of the headquarters of certain brands, particularly those of Louis Vuitton, Christian Dior Couture, Parfums Christian Dior, and Zenith.

The Group holds a 40% stake in the company that owns the building housing the LVMH headquarters on Avenue Montaigne in Paris. It also owns three buildings in New York with about 18,000 square meters of office space and two buildings in London with about 3,500 square meters of office space. These buildings are occupied by Group entities.

The Group also owns investment properties with office space in Paris, New York, Osaka and London, which total 19,500, 2,500, 3,000 and 2,000 square meters, respectively. These buildings are leased to third parties.

The group of properties previously used for the business operations of La Samaritaine's department store in Paris are the focus of a redevelopment project, which will transform it into a complex comprising mainly offices, shops and a luxury hotel.

5. Subsequent events

No significant subsequent events occurred between December 31, 2018 and April 26, 2019, the date at which the financial statements were approved for publication by the Board of Directors.

6. Recent developments and prospects

Despite a climate of geopolitical and currency uncertainties, the Financière Agache group is well equipped to continue its growth momentum across all business groups in 2019. The Group will maintain a strategy focused on developing its brands by continuing to build on strong innovation and investments as well as a constant quest for quality in its products and their distribution.

Driven by the agility of its teams, their entrepreneurial spirit, the balance of its different businesses and its geographic diversity, the Financière Agache group enters 2019 with cautious confidence and has, once again, set an objective of increasing its global leadership position in luxury goods.

Management Report of the Board of Directors – Financière Agache group

4. ETHICS AND RESPONSIBILITY

With respect to ethics, protecting human rights and fundamental freedoms, social responsibility and respecting the environment, the Codes of Conduct of Groupe Arnault (the Group's holding company) and LVMH form a common foundation for the fundamental principles that guide the Group in conducting its business and guide employees in exercising their responsibilities.

Given the Group's structure and organization, the Group's policy with respect to ethics and responsibility is primarily led by LVMH and its Maisons, which comprise all of the Group's operating activities.

1. Background

The Group has always sought to:

- ensure that its practices reflect the highest standards of integrity, responsibility and respect for its partners;
- offer a working environment that allows its employees to fully express their talents and implement their skills and expertise;
- ensure that its Maisons define and adapt their production processes, habits and behaviors in order to continuously improve their response to the environmental challenges they face;
- participate in the regional development of the areas in which it operates through its activities;
- mobilize resources and skills to serve philanthropic initiatives and projects of general interest, and promote access to art and culture for as many people as possible.

As a responsible and committed stakeholder, the Group seeks to anticipate and meet the expectations of civil society in relation to corporate social and environmental responsibility, which include the following:

- greater transparency in supply management to ensure that every stakeholder in the value chain offers satisfactory living and working conditions and uses environmentally friendly production methods;
- a demand for integrity in business at a time of growing global emphasis on the obligation for major groups to detect and prevent economic crime;
- responding to environmental challenges in light, in particular, of urgent changes called for by climate change;
- taking into account changing career expectations and helping employees navigate, in particular, new unique career paths, technological changes and new demographics;
- sensitivity to the use of personal data, an issue of the highest relevance in safeguarding the fundamental right to privacy.

In recent years, a number of regulations in these areas applicable to businesses have been passed at the French and European levels. These include the law on parent companies' duty of care with regard to social and environmental issues, the "Sapin II" Act on the prevention of corruption, the European Directive on disclosure of non-financial information and measures to transpose it into domestic law, and Europe's General Data Protection Regulation.

To take into account stakeholders' expectations and regulatory developments, the Group has reconfigured the organization and presentation of information relating to corporate responsibility. Information about the Group's statement of non-financial performance and the vigilance plan can be found in the cross-reference tables at the end of this section.

2. Standards

The Group stays true to its uniqueness through a meticulous dedication to excellence. This dedication requires an unwavering commitment to the highest standards in terms of ethics, social responsibility and respect for the environment.

In recent years, the Group has supported or signed up for a number of international standards, implementation of which it promotes within its sphere of influence, as well as putting in place its own internal standards.

2.1. INTERNATIONAL INSTRUMENTS

The Group, via LVMH, was quick to demonstrate its desire to act as a responsible corporate citizen and align its operations and strategy to support various benchmark international texts, including the following:

- the United Nations Global Compact, to which LVMH signed up in 2003, as well as the Caring for Climate initiative;
- the Universal Declaration of Human Rights;
- OECD Guidelines;
- the International Labor Organization's Fundamental Conventions;
- the 17 Sustainable Development Goals drawn up and developed by the United Nations;
- the Diversity Charter, signed by the Group in 2007;
- the United Nations Women's Empowerment Principles, signed by the LVMH in 2013;
- France's national biodiversity protection strategy;
- the Kimberley Process, an international system for certifying rough diamonds;
- the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).

2.2. INTERNAL STANDARDS

Codes of Conduct

The Groupe Arnault and LVMH Codes of Conduct outline the rules to be followed by all employees as they go about their work, and promote consistency and continuous improvement across the entire Group.

They are based on the following six core principles:

- acting responsibly and with social awareness;
- offering a fulfilling work environment and valuing talent;
- commitment to protect the environment;
- winning the trust of customers;
- winning the confidence of shareholders;
- acting with and commitment to integrity in the conduct of business.

Supported by all of the executive bodies, they promote consistency and continuous improvement across the Group's various entities. They do not replace existing codes and charters within Maisons, but serve as a shared foundation and source of inspiration. Where appropriate, their policies are defined in greater detail by Maison according to its business sector or location. Furthermore, locally applicable codes and charters are implemented where this is appropriate in the light of local laws and regulations.

These Codes have been translated into ten languages and are widely disseminated across the Group. Supplementary tools have also been developed to help employees better understand and apply the principles set out in them, including an e-learning module, and various communication materials.

Supplier Codes of Conduct

Groupe Arnault and LVMH implemented a Supplier Code of Conduct, applicable to all of their respective subsidiaries, which sets out their requirements for their partners in the fields of social responsibility, the environment and the fight against corruption.

These Supplier Codes of Conduct have been disseminated across the Group's Maisons; all partners working with the Group are required to comply with the principles laid down in them.

These Codes specify requirements relating to labor (prohibition of forced labor, child labor, harassment, discrimination, provisions regarding pay, working hours, freedom of association, health and safety), environmental provisions, business conduct (in particular relating to legality, customs, security and subcontracting) and measures to prevent and combat corruption and influence peddling that must be respected by suppliers and any subcontractors in managing their business.

The Groupe Arnault and LVMH Supplier Codes of Conduct state that the Group's suppliers must take responsibility for work undertaken by their own subcontractors and suppliers, and make sure that they comply with the principles laid down in the Codes and any other relevant obligations.

They also give the Group an audit right that allows it, as far as possible, to ensure that these principles are effectively observed.

If the Supplier Code of Conduct is violated by one of its suppliers – or by a supplier or subcontractor of one of its suppliers – the Group or the Maison concerned reserve the right to end the commercial relationship, subject to the conditions provided by law and depending on the severity of the violations identified.

LVMH Environmental Charter

Adopted in 2001, the LVMH Environmental Charter is the founding document for the Group's five main aims with regard to the environment:

- striving for high environmental performance standards;
- encouraging collective commitment;
- controlling environmental risks;
- designing products that factor in innovation and environmental creativity;
- making a commitment that goes beyond the Company.

It encourages the President of each Maison to demonstrate commitment to this approach through concrete actions.

The Charter was given a significant boost by the strategic LIFE (LVMH Initiatives for the Environment) program, launched in 2011, described in the "Environment and sustainability" section.

LVMH Recruitment Code of Conduct

The LVMH Recruitment Code of Conduct, implemented in 2009, has been widely disseminated to all employees involved in recruitment processes across the Group. It sets forth the ethical hiring principles to be observed in the form of fourteen commitments. Special emphasis is placed on preventing any form of discrimination and on promoting diversity.

LVMH Charter on Working Relations with Fashion Models

In 2017, LVMH drew up a Charter on Working Relations with Fashion Models in consultation with Kering and sector professionals motivated by a shared desire to promote dignity, health and well-being among fashion models.

The Charter, which applies to all Maisons worldwide, aims to bring about genuine change in the fashion world by rooting out certain behaviors and practices not in keeping with the Group's values and raising awareness among fashion models that they are full-fledged stakeholders in these changes.

To help spread the principles laid down in the Charter, LVMH and Kering have set up a dedicated website, wecareformodels.com. The site provides fashion models with best practice and advice from independent nutritionists and coaches.

LVMH Internal Competition Law Compliance Charter

In 2012, LVMH formalized its commitment to uphold free and fair competition by adopting an Internal Competition Law Compliance Charter. The Charter aims to help develop a true culture of compliance with competition rules within the Group. This charter sets out the main rules that should be known by all employees in conducting commercial relationships on a day-to-day basis, and defines in a pragmatic way the standards of conduct expected of them. In particular, the Group prohibits any abuse of dominant position, concerted practice or unlawful agreement, through understandings, projects, arrangements or behaviors which have been coordinated between competitors concerning prices, territories, market shares or customers. The Charter is available on the LVMH's Ethics & Compliance Intranet.

3. Governance

Dedicated governance arrangements are in place to ensure the Group's values and ethical standards are put into practice.

LVMH's Board of Directors' Ethics & Sustainable Development Committee – the majority of whose members are Independent Directors – ensures compliance with the individual and shared values on which the Group bases its actions. The Committee provides leadership on matters of ethics as well as environmental, workforce-related and social responsibility. The mapping of non-financial risks finalized in 2018 was notably submitted to it for review.

LVMH's Executive Management coordinates the efforts of LVMH's Audit & Internal Control, Operations, Purchasing, Environment, Social Development, Ethics & Compliance and Financial Communications Departments, which work together to raise awareness and help the Maisons make progress – especially in the areas of risk management and supplier relations – with regard to environmental, social and integrity issues.

The Ethics & Compliance Department, led by LVMH's Ethics & Compliance Director, draws up behavioral standards and makes available various tools designed to help LVMH entities implement applicable regulations. It has its own budget and headcount and is also supported by representatives from various departments so as to promote coordination on cross-functional projects led by it.

Around this central function, a network of Ethics & Compliance Officers, designated by the President of each Maison, coordinate implementation of the compliance program within each Maison and help share best practice within LVMH.

This governance structure is also supported by the following:

- the network of Social Responsibility Officers at Maisons, who help organize the measures to be implemented and facilitate their application by the Maisons, who will then make the necessary adjustments in line with their own values, their environment, and the expectations of their employees and customers;
- the Environment Committee, which brings together a network of Environment Officers from the Maisons. This body provides a forum for reflection and discussion about major objectives (LIFE program), environmental challenges and opportunities;
- responsible Purchasing seminars, which bring together all representatives from the Maisons responsible for purchasing, supply chains and supplier relations to review priority issues, launch new initiatives and share their views on best practice within LVMH;
- the network of Internal Control Officers led by LVMH's Audit and Internal Control Department, which coordinates the implementation of internal control and risk management systems. These officers are responsible, within the Maisons, for ensuring compliance with the LVMH's internal control procedures and preparing controls tailored to their business.

Groupe Arnault's governing bodies verify the work performed by LVMH with respect to ethics and compliance, notably by means of presentations that are made by LVMH's Ethics & Compliance Director.

4. Risk identification

The Group's activities involve exposure to various risks that are the object of regular risk management and identification within the context of primarily regulatory reforms. The approach to identifying risks that the Group's business might generate for its stakeholders has been systematized through a comprehensive risk-mapping exercise covering the fight against corruption, respect for human rights and environmental protection, based on a shared methodology covering the whole Group.

The non-financial risk-mapping exercise was undertaken by LVMH in 2018 with the assistance of global risk and strategic consulting firm Verisk Maplecroft, which specializes in analyzing political, economic, social and environmental risks.

It was based on an assessment comparing external benchmarking indicators provided by Verisk Maplecroft with qualitative and quantitative information provided internally by various LVMH entities, such as their level of activity, the amount of purchases by category, the number of production, logistics and retail sites, and the number of employees.

The exercise analyzed a wide variety of factors by geography and sector: corruption index, child labor, decent pay and working hours, workplace discrimination, freedom of association and trade union membership, health and safety, forced labor, air quality, waste management, water stress, water quality, deforestation, climate change, risk of drought, etc.

The resulting risk map separates out administration, production and distribution activities across these various risks, highlighting the severity of potential risks arising from the LVMH's own activities and those of its supply chain.

Based on an array of data – including this mapping work, feedback from the Maisons' networks of Ethics & Compliance, Social Responsibility and Environment Officers, and an assessment of the impact and probability of occurrence of the various risks identified – the following have been classified by representatives of LVMH's central functions and senior management as "key risks" in light of the activities performed:

- impact on ecosystems and depletion of natural resources;
- setting up and maintaining responsible supply chains;
- safeguarding health and safety at work;
- loss of key skills and expertise;
- implementation of a policy of employee inclusion and fulfillment;
- shortcomings in the implementation of rules governing the protection of personal data;
- shortcomings in the implementation of business practice compliance arrangements.

5. Risk management

In keeping with its aim of constantly improving its management of non-financial risks, the Group has set up a system for regularly monitoring risks relating to ethical, social and environmental responsibility.

Risk mapping details will be updated on a regular basis, and the system includes an assessment questionnaire filled out by each Maison, which is used to determine its current level of maturity in relation to risk management practices in the areas of anti-corruption, respect for human rights, and the protection of the environment, for each of the countries identified as particularly significant given the Company's level of risk exposure and the scale of its business activities there (revenue, amount of purchases, number of employees).

Based on the results of this questionnaire, the Maisons draw up and implement action plans that outline the initiatives to be taken in order to improve preventive measures for the identified risks and the next steps.

This information is taken into account in letters of representation concerning risk management and internal control arrangements under the "ERICA" approach, an overview of which can be found in the "Management of financial and operational risk and internal control" section.

Each year, LVMH's Ethics & Compliance Department reports to the Ethics & Sustainable Development Committee of LVMH's Board of Directors and Groupe Arnault's governing bodies on the implementation of the Group's ethics and compliance policy.

The policies put in place to manage the key risks identified above, together with their results, where relevant, are set out in this section. Readers are referred to the "Attracting and retaining talent" and "Environment and sustainability" sections where applicable.

5.1. COMPREHENSIVE PROGRAM TO PROTECT ECOSYSTEMS AND NATURAL RESOURCES

Because its businesses celebrate nature at its purest and most beautiful, the Group sees preserving the environment as a strategic imperative. The fact that this imperative is built into all the Group's activities constitutes an essential driver of its growth strategy, enabling it to respond to stakeholders' expectations and constantly stimulate innovation.

Built around nine key aspects of the Group's environmental performance, the global LIFE (LVMH Initiatives for the Environment) program provides a structure for this approach, from design through to product sale. It is presented in detail in the "Environment and sustainability" section.

5.2. SUPPLIER ASSESSMENT AND SUPPORT

The Group considers it very important that the Maisons and the Group's partners abide by a shared body of rules, practices and principles in relation to ethics, social responsibility and environmental protection. The complexity of global supply chains means there is a risk of exposure to practices that run counter to these rules and values.

The Group's responsible supply chain management approach therefore aims to motivate suppliers, and the ecosystems of which they are a part, to meet ethical, social and environmental requirements.

Supporting suppliers has long been a strategic focus for the Group, with a view to maintaining sustainable relationships based on a shared desire for excellence. The Group pursues an overarching approach aimed at ensuring that its partners adopt practices that are environmentally friendly and respect human rights.

This approach is based on a combination of the following:

- identifying priority areas, informed in particular by the non-financial risk-mapping exercise covering the activities of the Group and its direct suppliers;
- site audits to check that the Group's requirements are met on the ground;
- supplier support and training;
- participating in cross-sector initiatives covering high-risk areas.

To a large extent, actions implemented address issues connected with both the environment and human rights.

Identifying priority areas

The non-financial risk-mapping exercise described under §4 helps determine which suppliers should be audited as a priority. It takes into account country risk, category risk and the amount of purchases in question.

In addition, in 2018 the Group stepped up its use of the EcoVadis platform, which also helps identify priority suppliers by assessing their ethical, social and environmental performance through the collection of documentary data and external intelligence. More than 500 suppliers to the Group have been invited to use the platform, which Sephora has joined in its own right, alongside the Group Purchasing Department, Louis Vuitton and the Perfumes and Cosmetics business group. The portfolio of Group suppliers that have been assessed have achieved scores higher than the EcoVadis average, notably on environmental and social aspects.

Assessment and corrective action plans

The Group's Maisons are unique in that they undertakes much of their own manufacturing in house, with subcontracting accounting for only a small proportion of the cost of sales. The Group is therefore able to directly ensure that working conditions are safe and human rights respected across a significant proportion of its production.

Maisons apply reasonable due diligence measures and audit their suppliers – and, above Tier 1, their subcontractors – to ensure they meet the requirements laid down in the Group's Supplier Codes of Conduct.

Contracts entered into with suppliers with whom the Group maintains a direct relationship include a clause requiring them to disclose their subcontractors.

For some Maisons, the majority of audits are above Tier 1: at Fendi, for example, 60% of audits completed in 2018 were of subcontractors of direct suppliers.

Maisons maintain collaborative working relationships with direct suppliers, helping them conduct audits and draw up any corrective action plans that might be required.

The Group uses specialist independent firms to conduct these audits. In 2018, 1,092 audits (not including EcoVadis assessments) were undertaken at 877 suppliers and subcontractors; Maisons using the Sedex platform also had access to the findings of a further 37 audits. The majority of audits cover both workforce-related aspects (health and safety, forced labor, child labor, decent pay, working hours, discrimination, freedom of association and collective bargaining, the right to strike, etc.) and environmental aspects (environmental management system, water usage and pollution, gas emissions and air pollution, management of chemicals, waste management, types of raw materials used, etc.). Some cover workforce-related aspects only (30%) or environmental aspects only (13%).

The Maisons focus their efforts on follow-up audits (which accounted for 22% of audits completed in 2018) and pre-production audits of potential suppliers (in 2018, 13 potential commercial relationships were not pursued as a result of unsatisfactory audit findings).

	Europe	Asia	North America	Other
Breakdown of suppliers – all categories *(as %)*	65	14	14	7
Breakdown of audits *(as %)*	68	28	1	3

In 2018, some Maisons rolled out solutions for directly gathering opinion from suppliers' employees. For example, to improve its ability to assess human rights and satisfaction levels at supplier sites, Sephora US coordinated three surveys in China with Elevate, a responsible supply chain consulting firm, to directly gather comments from 91 employees via the WeChat platform.

In 2018, 20% of suppliers audited failed to meet the Group's requirements based on a four-tier performance scale that takes into account the number and severity of compliance failures observed; 4% were found to have critical compliance failures. In such cases, the Group always works with the supplier to draw up a corrective action plan, implementation of which is monitored by the buyer responsible for the relationship within the relevant Maison. Support from specialized external consultants is sometimes offered: this is always the case for Fendi, Loro Piana and Bvlgari's jewelry business.

When, in spite of the support offered by the Group, a supplier or its subcontractors prove unwilling to make the effort required to meet the relevant requirements, the relationship is terminated. Nine such relationships were terminated in 2018, the vast majority of them with Tier 2 subcontractors, in agreement with the direct supplier.

Supplier and buyer training

In keeping with its aim of providing continuous support and fostering continuous improvement, the Group regularly offers its suppliers training opportunities. For example, in 2018:

- 200 Group suppliers took part in training on responsible cotton suppliers, in partnership with members of the Better Cotton Initiative;
- Bvlgari hosted a meeting with around 60 of its suppliers to discuss key issues and actions relating to social and environmental responsibility;
- targeted training was once again offered through the multi-party Sedex platform, of which LVMH is a member. In 2018, Marc Jacobs added a dedicated CSR training module offered to around 60 employees of its suppliers.

At the same time, the Group ensures that its buyers receive training in issues relating to responsible purchasing. For example, in 2018:

- five training sessions were made available to the Purchasing community on assessing environmental risk at supplier sites;
- the Perfumes and Cosmetics business group trained 15 buyers in how to effectively monitor corrective action plans;
- Louis Vuitton delivered dedicated training to buyers tasked with monitoring SA8000 certification audits and corrective action plans;
- over a hundred people took part in the annual Responsible Purchasing seminar run in November by the LVMH Purchasing Department, in cooperation with the Environment Department. The seminar is an opportunity for attendees from different Maisons to share experience and best practice in relation to social and environmental responsibility.

Participation in multi-party initiatives covering high-risk areas

In addition to its actions aimed at direct suppliers, the Group, via LVMH, takes part in initiatives intended to improve visibility along supply chains and throughout subcontractor networks, to ensure that it can best assess and support all stakeholders.

Working groups have been put in place and targeted programs rolled out to address issues specific to each of the industry sectors in which the Group operates. To maximize efficiency and optimize influence over subcontractors' practices, preference is generally given to sector-specific initiatives covering multiple purchasing entities.

For Maisons in the Watches and Jewelry business group, the mining sector, which is highly fragmented and relies substantially on the informal economy, carries significant risks to human rights. As such, the Maisons have formally committed under the LIFE 2020 program to ensuring that all diamond and gold supplies are certified by the Responsible Jewellery Council (RJC). Alongside suppliers and other pioneering competitors, LVMH also participates in the Coloured Gemstones Working Group run by sustainable development consultancy The Dragonfly Initiative, aimed at optimizing oversight of supply arrangements for colored gemstones.

Maisons in the Perfumes and Cosmetics business group have signed up for the Responsible Beauty Initiative run by EcoVadis, working with major sector players to develop action plans in response to business-specific issues. Work to map Indian mica supply chains began in 2015, followed by a program of audits down to individual mine level. Over 80% of the supply chain has been covered to date. The business group is also involved in the Responsible Mica Initiative, which aims to pool sector stakeholders' resources to ensure acceptable working conditions in the sector by 2022. Lastly, the Maisons in the Perfumes and Cosmetics business group have exceeded their target of using at least 50% RSPO (Roundtable on Sustainable Palm Oil) certified palm oil derivatives by the end of 2018 (79% of certified derivatives, by weight).

For Maisons in the Fashion and Leather Goods business group, specific traceability requirements applicable to the leather and cotton sectors have been incorporated into the LIFE 2020 program. Leather traceability is taken into account via the score resulting from audits of the Leather Working Group standard. Meanwhile, 70% of cotton supplies must meet responsible criteria (such as the GOTS, Certified Recycled or BCI standards) by 2020.

For all Maisons, and more specifically those in the Selective Retailing, Wines and Spirits, and Perfumes and Cosmetics business groups, particular attention is paid to purchases of packaging materials due to fragmentation of production processes in this sector.

5.3. UNRELENTING FOCUS ON QUALITY AND SAFETY

The Group's Maisons are continuously looking to offer products of the highest quality, through research and innovation and high standards in the selection of materials and the implementation of expertise in their activities. The Group is motivated by a constant desire to protect the health and safety of its stakeholders.

As regards its own employees, the Group pursues a health, safety and well-being policy that is set out in the "Attracting and retaining talent" section.

As regards its suppliers' employees, the assessment criteria used in workforce audits of suppliers at Tier 1 and above include aspects related to health and safety (see §5.2).

As regards its customers, the Group is particularly attentive to two key issues: prudent use of chemical compounds in production processes and promoting responsible consumption of wines and spirits.

Prudent use of chemical compounds in production processes

The Group is committed to safeguarding against risks inherent in the use of chemical compounds, and complies with regulations, industry group recommendations and opinions issued by scientific committees in this field. The Group is constantly seeking to anticipate changes in this area, drawing on its employees' expertise to produce only the safest products.

The Group's experts regularly take part in working groups set up by domestic and European authorities and play a very active role within industry groups. Their ongoing monitoring of changes in scientific knowledge and regulations has regularly led the Group's Maisons to prohibit the use of certain substances and make efforts to reformulate some of its products.

The Group's Maisons have customer relations departments that analyze customer complaints, including those relating to adverse effects.

The Perfumes and Cosmetics business group has a dedicated team of specialists who provide the Maisons with access to a European network of healthcare professionals able to quickly respond to help consumers experiencing side effects. Such post-market surveillance makes it possible to explore new avenues of research and constantly improve the quality and tolerance with respect to the Group's products. The Maisons in this business group comply with the most stringent international safety laws, including the EU regulation on cosmetics. Their products must meet very strict internal requirements covering development, quality, traceability and safety.

Maisons in the Fashion and Leather Goods, and Watches and Jewelry business groups abide by the LVMH Restricted Substances List, an internal standard that prohibits or restricts the use of certain substances in products brought to market, as well as their use by suppliers. This standard, which notably applies to metal parts, goes beyond regulatory requirements and is regularly updated in response to ongoing monitoring of scientific developments. In 2018, more than 300 employees and around 100 suppliers received training in how to apply it.

To help suppliers eliminate the substances on this list, the Group's Environment Department has produced specific technical guides suggesting alternatives. Training is regularly offered on this subject.

Another in-house tool, the LVMH Testing Program, reinforces the control system of Maisons in the Fashion and Leather Goods business group, allowing them to test the highest-risk substances for different materials at five partner laboratories.

Moët Hennessy: An ambassador for responsible consumption of wines and spirits

The Group's Maisons specializing in wines and spirits are committed to combating practices that encourage inappropriate drinking. For many years, Moët Hennessy has promoted the responsible enjoyment of its champagnes, wines and spirits. This commitment takes shape through a diverse range of initiatives aimed at its employees and customers, as well as guests and visitors to its Maisons.

Not only does Moët Hennessy scrupulously adhere to local regulations, it also self-regulates across the entire spectrum of its communications and marketing practices, as well as following strict digital media guidelines, for example by using filters to keep underage viewers from visiting its Maisons' websites.

On the labels of all its wine and champagne bottles sold in the European Union (except in France for legal reasons), Moët Hennessy provides links to websites that provide consumers with information on responsible drinking, such as www.wineinmoderation.com for wines, www.responsibledrinking.eu for spirits and www.drinkaware.co.uk in the United Kingdom. Links to these websites are also available on the websites of the Maisons in this business group.

Raising awareness also means educating consumers. For example, every year, Moët Hennessy's teams teach hundreds of consumers the rituals for tasting its exceptional products.

Moët Hennessy continues to provide its employees with training on the importance of responsible drinking, notably through a new in-house mobile app, as well as running an internal communications campaign reminding employees that they are "all ambassadors for responsible drinking".

In recognition of the fact that responsible drinking is something the whole sector should be concerned about, Moët Hennessy has developed and launched an entirely digital training program for students at partner hotel schools. The aim is to ensure that those who are likely to serve Moët Hennessy products will be familiar with and keen to pass on the principles of responsible drinking.

Lastly, Moët Hennessy continued to actively support responsible drinking programs around the world run by the industry associations it belongs to around the world. In particular, Moët Hennessy is one of three ambassador companies of Wine in Moderation, a non-profit that actively promotes a wine culture based on a healthy and balanced lifestyle.

5.4. ONGOING EFFORTS TO ATTRACT AND SUPPORT TALENT

The pursuit of the Group's strategy of growth, international expansion and digitalization relies on its ability to identify talented individuals with the skills it needs and attract them in a highly competitive environment. In particular, the highly specific and demanding nature of the luxury goods industry means the Group must recruit staff with outstanding craftsmanship. Promoting the Group's business lines, passing on skills and training the designers and craftspeople of the future are therefore key issues for the Group.

This is why innovative recruitment initiatives, academic partnerships and professional education programs are key components of the Group's human resources policy, detailed in the "Attracting and retaining talent" section.

5.5. CONSTANT FOCUS ON EMPLOYEE INCLUSION AND FULFILLMENT

The Group is constantly seeking to create conditions that enable its employees to realize their full potential and succeed within the business. At a time of shifting career expectations, it is vitally important to foster employees' aspirations and their fulfillment and to promote diversity.

This is why workplace well-being, career guidance, reducing gender inequality, promoting employment for people with disabilities and retaining older employees are all priorities within the Group's human resources policy, detailed in the "Attracting and retaining talent" section.

5.6. INTEGRITY IN BUSINESS

Any lapse in prevention and detection in its operations, or any practices contrary to applicable regulations, may bring serious harm to the Group's reputation, cause disruptions in its business activities, and expose the Group, if applicable, to administrative and judicial penalties of various kinds (fines, withdrawals of authorizations, legal actions brought against employees, etc.).

Due to their extraterritorial aspects, laws relating to the prevention of corruption and other forms of economic crime as well as policies regarding international sanctions are increasingly giving rise to enforcement actions and the announcement of judicial and financial penalties.

The Group's senior executives may now be held personally liable for any breach of their obligation to put in place adequate prevention and detection measures, possibly even in the absence of any noted illicit activity.

Given the global reach of its business, the Financière Agache group has operations in many countries around the world through its subsidiary LVMH, including some with a level of maturity in the adoption of ethical business practices deemed unsatisfactory by leading international rankings.

Due to the nature of its business model, the Group does not enter into any significant contracts with governments. Consequently, it is not exposed to the corruption risks associated with public procurement procedures.

However, the Group's business activities involve contacts with government agencies, for the granting of various authorizations and permits. Similarly, out of a willingness to discuss and cooperate with authorities and decision-makers, the Group contributes to public debate in countries where to do so is authorized and relevant. The Group's contributions in the public space always abide by the laws and regulations applicable to the institutions and organizations in question, and the Group is registered as an interest representative where its activities justify such action.

Furthermore, the Group may be exposed, in the same way as any other private company, to the risk of corruption in its dealings with private business partners.

Given the diversity of the Group's ecosystem and its decentralized organizational model, Maisons have developed their own policies adapted to their specific business contexts. At a central level, LVMH's Ethics & Compliance Department develops and coordinates the rollout of cross-departmental initiatives to strengthen compliance programs already in place within the Group and ensure their consistency.

Communications, awareness and training efforts aiming to improve employee vigilance are implemented. Common rules, procedures and tools are also in place to facilitate day-to-day detection and prevention, by operational staff, of prohibited conduct.

Communications, awareness and training

Serving as key information resources for the Group's ethics and compliance policy, the Groupe Arnault and LVMH Ethics & Compliance Intranet sites provide access for all Group employees to a set of documents, tools and information relating to business ethics. Maisons with their own intranets refer their users to this central resource.

Specific information is provided by the relevant human resources departments to newly hired employees concerning the Codes of Conduct and whistleblowing systems. An online training tool, available to all employees on the LVMH Ethics & Compliance Intranet, is designed to help them understand and better assimilate the rules, practices and values presented in the Group's Codes of Conduct. In 2018, this module was translated into around ten languages to make it available to a wider audience.

Awareness initiatives are coordinated by LVMH's Ethics & Compliance Department, in the context of seminars organized by the Group in various regions. In 2018, presentations along these lines took place in the United States, across Europe, and in China (for the Asia region), particularly for staff working in the Internal Control and Purchasing Departments, who are key actors in the Ethics & Compliance program.

The Group has also developed a specific anti-corruption online training module, which is available to all Maisons and serves as a common core that supplements existing training materials. This module is mandatory for all staff identified as particularly exposed to corruption risk and its results are regularly assessed.

Rules, procedures and tools

In addition to the Codes of Conduct, the Group has internal guiding principles formalized in a set of documents that apply to all entities intended to be used as a reference guide to help employees adopt appropriate behaviors in various areas to do with business ethics. In particular, these principles cover the following:

- preventing corruption and influence peddling, including basic definitions of these concepts and information about how to identify various suspicious behaviors against which staff should be on their guard;
- mandatory rules on gifts and entertainment;
- preventing money laundering, including information on cash payment limits and formalities for reporting large payments;
- rules for preventing, reporting and resolving conflicts of interest; in this regard, an annual conflict of interest reporting campaign is undertaken within the governing bodies of the Group and the Maisons;
- use of assets belonging to the Group and the Maisons, including the fact that such assets are made available only for a temporary period and the requirement that they be used in a professional and conscientious manner;
- loans of clothes and accessories by Maisons to employees or individuals outside the Group;
- Group policy on travel and security, which includes rules on authorization of travel and payment of travel expenses.

LVMH's internal control framework was revised in 2018, notably to incorporate new or more stringent ethical and compliance requirements and to ensure that the Group's various entities meet those requirements.

In addition to the usual existing communication and warning channels within the Group and the Maisons, LVMH has set up a centralized whistleblowing system, available in around ten languages, to collect and process reports from all employees concerning infringements or serious risks of infringement of laws, regulations, the provisions of the Group's Codes of Conduct and other principles, guidelines and internal policies.

The system covers the following behaviors:

- corruption and influence peddling;
- money laundering, fraud and falsification of accounting records;
- embezzlement;
- anti-competitive practices;
- data protection breaches;
- discrimination, harassment, violence and threatening behavior;
- infringements of social standards and labor law, illegal employment;
- infringements of occupational health and safety regulations, violation of environmental protection laws;
- practices contrary to ethical principles.

Alerts handled through dedicated whistleblowing systems help improve risk identification procedures, as part of a continuous improvement approach.

If employees fail to abide by rules laid down in the Codes of Conduct, the guiding principles or, more generally, the Internal Rules (or equivalent document) of their employing Maison, the Group will take appropriate and timely steps to put an end to the infringement in question, including appropriate disciplinary sanctions proportionate to the severity of the infringement, in accordance with the provisions of the Internal Rules (or equivalent document) and applicable laws and regulations.

5.7. RESPONSIBLE MANAGEMENT OF PERSONAL DATA

Given the acute sensitivity of civil society with regard to security and use of personal data, the tightening of rules and the greater severity of penalties, as well as the fragmentation of laws and their increasing complexity, it is essential to ensure adequate governance.

In an era of innovation for the Group – which is moving ahead with an ambitious digital strategy, resolutely focused on its customers and their aspirations – it must offer services that guarantee perfect compliance. This means building and promoting a personal data protection culture that permeates all the Group's business lines and activities as well as taking into account the resulting technical and methodological developments.

To ensure a consistent, effective approach, a data protection policy is proposed to all Maisons in order to provide them with a common framework of rules and recommendations, helping ensure that appropriate measures are taken suitable to protect personal data within the Group worldwide, in compliance with applicable regulations.

This policy defines a Group compliance program on the protection of personal data, aimed at putting in place clear and transparent governance arrangements to manage issues concerning data protection, together with a range of common directives, bodies and processes. It notably draws on internal rules concerning the requirement for information systems that handle personal data to be compliant from the design stage onwards, the principles laid down in the General Data Protection Regulation and recommendations issued by various national data protection authorities.

This policy aims, in particular, to promote a consistent and stringent approach to protecting the privacy of the Group's customers. In this regard, the Group and its Maisons do not sell their customers' personal data and only communicate with their customers in strict compliance with applicable rules.

A community to exchange ideas and share experiences, bringing together the Data Protection Officers at all Maisons, has been formed in order to address common problems and define concerted approaches for the Group's business lines.

6. Independent Verifier's report on the consolidated statement of non-financial performance included in the Management Report

To the Shareholders' Meeting,

In our capacity as an Independent Verifier accredited by COFRAC (Accreditation No. 3-1050; scope of accreditation available at www.cofrac.fr) and belonging to the network of a Statutory Auditor of Financière Agache (hereinafter "entity"), we hereby present our report on the consolidated statement of non-financial performance for the fiscal year ended December 31, 2018 (hereinafter "Statement"), as set out in the Management Report pursuant to the legal and regulatory provisions laid down in Articles L. 225-102-1, R. 225-105 and R. 225-105-1 of the French Commercial Code.

Responsibility of the entity

It is the Board of Directors' responsibility to prepare a Statement compliant with legal and regulatory requirements, including an overview of the business model, a description of key non-financial risks and an overview of the policies adopted in light of those risks, together with the results of those policies, including key performance indicators.

The Statement was prepared by applying the entity's procedures (hereinafter "Framework"), the significant components of which are set out in the Statement and are available on request from the LVMH group's Environment and Human Resources Departments.

Independence and quality control

Our independence is defined by the provisions of Article L. 822-11-3 of the French Commercial Code and the Code of Ethics of our profession. In addition, we have implemented a quality control system, including documented policies and procedures designed to ensure compliance with ethical standards, professional guidelines and applicable laws and regulations.

Responsibility of the Independent Verifier

It is our responsibility, on the basis of our work, to express a reasoned opinion reflecting a limited assurance conclusion that:

- the Statement complies with the requirements laid down in Article R. 225-105 of the French Commercial Code;
- the information provided is fairly presented in accordance with Point 3 of Sections I and II of Article R. 225-105 of the French Commercial Code, namely the results of policies, including key performance indicators, and actions in relation to key risks, hereinafter "Information".

It is not our responsibility, however, to express an opinion on:

- whether the entity complies with other applicable legal and regulatory provisions, notably concerning the vigilance plan and the prevention of corruption and tax evasion;
- whether products and services comply with applicable regulations.

Nature and scope of work

The work described below was carried out in accordance with the provisions of Articles A.225-1 et seq. of the French Commercial Code determining the terms under which Independent Verifiers perform their duties and in keeping with industry guidelines as well as the ISAE 3000 international standard, "Assurance engagements other than audits or reviews of historical financial information."

Our work enabled us to assess the Statement's compliance with regulatory provisions and the fair presentation of the Information:

- we familiarized ourselves with the business of all companies falling within the scope of consolidation, the key workforce-related and environmental risks associated with that business and, where applicable, its impact with regard to human rights and the prevention of corruption and tax evasion, as well as the resulting policies and their results;
- we assessed the suitability of the Guidelines in terms of their relevance, completeness, reliability, objectivity and comprehensible nature, taking the sector's best practices into consideration, where applicable;
- we checked that the Statement covers each category of information laid down in Section III of Article L. 225-102-1 of the French Commercial Code on workforce-related and environmental issues, as well as compliance with human rights and the prevention of corruption and tax evasion;
- we checked that the Statement includes an explanation of the reasons for the absence of information required by Section III, Paragraph 2 of Article L. 225-102-1 of the French Commercial Code;
- we checked that the Statement provides an overview of the business model and key risks associated with the business of all entities falling within the scope of consolidation, including, where relevant and proportionate, risks arising from business relationships, products and services as well as policies, actions and results, including key performance indicators;
- we checked, where relevant to the key risks and policies presented, that the Statement presents the information laid down in Section II of Article R. 225-105 of the French Commercial Code;
- we assessed the process used to select and validate the key risks;
- we asked about the internal control and risk management procedures put in place by the entity;
- we assessed the consistency of results and key performance indicators in light of the key risks and policies presented;
- we checked that the Statement covers the scope of the consolidated Group, i.e. all companies falling within the scope of consolidation in accordance with Article L. 233-16 of the French Commercial Code, within the limits set out in the Statement;
- we assessed the collection process put in place by the entity aimed at ensuring that the Information is complete and fairly presented;
- for key performance indicators and those other quantitative results we considered the most significant, set out in Appendix 1, we carried out the following:
  - analytical procedures that consisted in checking that all data collected had been properly consolidated, and that trends in that data were consistent,
  - detailed, sample-based tests that consisted in checking that definitions and procedures had been properly applied and reconciling data with supporting documents. This work was carried out on a selection of contributing entities listed below:
    - environmental information: Wines and Spirits: MHCS (France), Glenmorangie (Tain, Scotland), Chandon Argentina (Argentina), Belvedere (Poland), Chandon India (India); Perfumes and Cosmetics: Parfums Christian Dior (Saint-Jean-de-Braye, France), Guerlain (Orphin, France), LVMH Fragrance Brands (Vervins, France); Fashion and Leather Goods: Louis Vuitton Malletier (headquarters and manufacturing sites), Loro Piana (Quarona, Italy), Rimowa (Cologne, Germany), Christian Dior Couture (stores in France); Watches and Jewelry: Bvlgari (Rome, Italy), Artecad (Switzerland), Tag Heuer (La Chaux-de-Fonds, Switzerland); Selective Retailing: Sephora Europe/Middle East/Asia (France); DFS (stores in Singapore and Hong Kong); Other activities: Royal Van Lent (Netherlands),

- workforce-related information: Wines and Spirits: MHCS (France); Perfumes and Cosmetics: LVMH Fragrance Brands (France); Fashion and Leather Goods: Société Louis Vuitton Services (France), Givenchy (France); Watches and Jewelry: Bulgari SpA, Bulgari Italia SpA, Bulgari Accessori Srl (Rome, Italy); Selective Retailing: Le Bon Marché (France), Sephora USA Inc.; Other activities: Royal Van Lent (Netherlands),
- social information: Wines and Spirits: MHCS (France); Perfumes and Cosmetics: Parfums Christian Dior (France); Fashion and Leather Goods: Louis Vuitton Malletier (France); Watches and Jewelry: Bvlgari (Rome, Italy),
- the selected entities cover between 11% and 86% of the consolidated data selected for these tests (17% of the workforce; 54% of energy-related greenhouse gas emissions; 58% of leather supplied by LWG-certified tanneries);

• we consulted source documents and conducted interviews to corroborate what we considered the most important qualitative information (actions and results) set out in Appendix 1;

• we assessed the Statement's overall consistency with our knowledge of all the companies falling within the scope of consolidation.

We consider that the work we performed using our professional judgment allow us to formulate a limited assurance conclusion; an assurance of a higher level would have required more extensive verification work.

Means and resources

Our work was undertaken by a team of three people between October 2018 and March 2019, for a period of approximately one week.

We conducted around ten interviews with those responsible for preparing the Statement, notably representing Executive Management and the Administration and Finance, Risk Management, Ethics and Compliance, Human Resources, Health and Safety, Environment, and Purchasing Departments.

Conclusion

On the basis of our work, we found no material misstatements that might have led us to believe that the statement of non-financial performance is not compliant with applicable regulatory requirements or that the Information, taken as a whole, is not fairly presented, in accordance with the Framework.

Paris-La Défense, April 30, 2019

The Independent Verifier

ERNST & YOUNG et Associés

Éric Duvaud
Sustainable Development Partner

Jean-François Bélorgey
Partner

APPENDIX 1: INFORMATION CONSIDERED THE MOST IMPORTANT

Workforce-related information

Quantitative information (including key performance indicators)	Qualitative information (actions and results)
• Breakdown of the workforce as of December 31 by gender and professional category • Recruitment onto permanent contracts from January 1 to December 31 (breakdown by gender) • Turnover among employees on permanent contracts from January 1 to December 31 (breakdown by reason) • Proportion of employees on permanent contracts trained, by professional category • Number of days' training for employees on permanent contracts • Absence rate by reason • Workplace accident frequency rate • Workplace accident severity rate	• Attracting and training students and recent graduates • Preventing discrimination during the recruitment process • Training and support for employees throughout their careers • Workplace health and safety

Environmental information

Quantitative information (including key performance indicators)	Qualitative information (actions and results)
• Proportion of manufacturing sites certified ISO 14001 (%) • Total energy consumption (MWh) • Energy-related greenhouse gas emissions (metric tons of CO_2 equivalent) • Total water consumption for process requirements (m^3) • Chemical Oxygen Demand after treatment (metric tons/year) • Total waste produced (metric tons) • Total hazardous waste produced (metric tons) • Waste recovery rate (%) • Total packaging that reaches customers (metric tons) • Environmental Performance Index for packaging (value) • Proportion of grapes (in kg), whether from the Company's own vineyards or bought in, produced under a sustainable winegrowing certification (%) • Proportion of palm oil derivatives (in kg) certified RSPO Mass Balance or Segregated (%) • Proportion of leather (in m^2) sourced from LWG-certified tanneries (%) • Proportion of gold purchases (in kg) certified RJC CoP or CoC • Proportion of diamond purchases (in carats) certified RJC CoP • Proportion of cotton purchases (in metric tons) certified BCI (%) • Greenhouse gas emissions avoided per year by projects under the banner of the Carbon Fund (metric tons of CO_2 equivalent avoided)	• Organization of the environmental approach, particularly governance and commitments, including the LIFE program • Environmental impact of packaging and monitoring of the LIFE "Products" target • Environmental standards applied to the supply chain and monitoring of the LIFE "Sourcing" targets • Combating climate change and monitoring the LIFE "Climate change" target • Environmental management of sites and monitoring of the LIFE "Site" targets

Social information

Quantitative information (including key performance indicators)	Qualitative information (actions and results)
• Number of supplier and subcontractor audits carried out • Proportion of grape supplies (in kg), whether from the Company's own vineyards or bought in, produced under a sustainable winegrowing certification (%) • Proportion of palm oil derivative supplies (in kg) certified RSPO Mass Balance or Segregated (%) • Proportion of leather supplies (in m²) sourced from LWG-certified tanneries (%) • Proportion of gold supplies (in kg) certified RJC CoP or CoC • Proportion of diamond supplies (in carats) certified RJC CoP • Proportion of cotton supplies (in metric tons) certified BCI (%)	• Implementation of the Charter on Working Relations with Fashion Models and Their Well-Being • Supplier assessment and support • Management of personal data • Business conduct and ethics

7. Cross-reference tables

7.1. STATEMENT OF NON-FINANCIAL PERFORMANCE

Like any other economic actor, the Financière Agache group is exposed to a number of non-financial risks that may affect its performance, cause harm to its reputation, and impact its stakeholders and/or the environment. The following risks have been classified by representatives of LVMH's central functions and senior management as "key risks" in light of the Group's activities (see §3 of the "Ethics and responsibility" section):

- impact on ecosystems and depletion of natural resources;
- setting up and maintaining responsible supply chains;
- safeguarding health and safety at work;
- loss of key skills and expertise;
- implementation of a policy of employee inclusion and fulfillment;
- shortcomings in the implementation of rules governing the protection of personal data;
- shortcomings in the implementation of business practice compliance arrangements.

The Group is committed to addressing each of these risks by putting the appropriate policies in place. The cross-reference tables below provide a summary presentation of the information constituting the Group's statement of non-financial performance, as required by Article L. 225-102-1 of the French Commercial Code, indicating for each item the location in this Management Report where further details may be found. They include cross-references to the specific disclosures required by this article with regard to respect for human rights and measures to combat corruption, climate change, and discrimination.

The remaining disclosures required by this article may be found in the following locations:

- with regard to the Group's business model, in the sections entitled "The Financière Agache business model" and "Business overview, highlights and outlook" in the introduction to this report;
- with regard to the presentation of the workforce for each business group and geographic region, in §1.3 of the "Attracting and retaining talent" section;
- with regard to collective bargaining agreements signed at the level of companies across the Group, in §3.2 of the "Attracting and retaining talent" section;
- with regard to efforts to promote the circular economy, in §1.2.2 and §5.4 of the "Environment and sustainability" section;
- with regard to combating food waste, in §5.4.2 of the "Environment and sustainability" section;
- with regard to social commitments to promote sustainable development, apart from the topics covered by the cross-reference tables below in terms of social consequences, respect for human rights and the environment, in §1 and §2 of the "Corporate philanthropy" section;
- with regard to protecting animal welfare, in §3.1 and §3.3 of the "Environment and sustainability" section;
- with regard to the fight against tax evasion, in §1.2.1 of the "Financial and operational risk management and internal control" section.

Lastly, given the nature of the Group's business activities, topics relating to the fight against food insecurity or efforts to promote responsible and sustainable food production as well as fair food systems are not discussed in this Management Report.

7.1.1. Social consequences

Risk	Policies	Results
Loss of key skills and expertise	• Academic partnerships (§2.2 of the "Attracting and retaining talent" section) • Institut des Métiers d'Excellence (§2.2 of the "Attracting and retaining talent" section) • Training and support for employees throughout their careers (§3.1 of the "Attracting and retaining talent" section) • "EXCELLhanCE" initiative to promote training and employment for people with disabilities (§2.3 of the "Attracting and retaining talent" section) • Support for talented women to help them move into key positions (§3.1 of the "Attracting and retaining talent" section)	• Joiners by business group and geographic region (§2.1 of the "Attracting and retaining talent" section) • Investment in training (§3.1 of the "Attracting and retaining talent" section) • Internal mobility data (§2.1 of the "Attracting and retaining talent" section) • Awards, recognition and rankings obtained as an employer (§2.1 of the "Attracting and retaining talent" section)
Health and safety issues faced in the Group's business activities	• Codes of Conduct (§2.2 of the "Ethics and responsibility" section) • Whistleblowing systems (§5.6 of the "Ethics and responsibility" section) • LVMH Charter on Working Relations with Fashion Models (§2.2 of the "Ethics and responsibility" section) • Investments in health, safety and security (§3.2 of the "Attracting and retaining talent" section) • Staff training in health, safety and security (§3.2 of the "Attracting and retaining talent" section) • Social audits of suppliers and subcontractors including a health and safety dimension (§5.2 of the "Ethics and responsibility" section) • Measures relating to the use of chemicals and cosmetovigilance (§5.3 of the "Ethics and responsibility" section) • Promoting responsible consumption of Wines and Spirits (§5.3 of the "Ethics and responsibility" section)	• Breakdown, frequency and severity of work-related accidents (§3.2 of the "Attracting and retaining talent" section) • Data relating to social audits that include a health and safety dimension (§5.2 of the "Ethics and responsibility" section) • Training sessions for employees and suppliers focusing on the LVMH Restricted Substances List (§5.3 of the "Ethics and responsibility" section)
Implementation of a policy of employee inclusion and fulfillment (aspects related to fulfillment at work)	• Codes of Conduct (§2.2 of the "Ethics and responsibility" section) • Whistleblowing systems (§5.6 of the "Ethics and responsibility" section) • LVMH Talent platform (§3.1 of the "Attracting and retaining talent" section) • DARE program (§3.1 of the "Attracting and retaining talent" section) • Employee induction seminars (§3.1 of the "Attracting and retaining talent" section) • Manager training (§3.1 of the "Attracting and retaining talent" section) • Group Works Council and SE Works Council (§3.2 of the "Attracting and retaining talent" section)	• Number of managers having received specific training (§3.1 of the "Attracting and retaining talent" section) • Number of employees having completed induction seminars (§3.1 of the "Attracting and retaining talent" section) • Number of employees having completed performance and career reviews in 2018 (§3.1 of the "Attracting and retaining talent" section) • Number of meetings held by employee representative bodies in 2018 (§3.2 of the "Attracting and retaining talent" section)

7.1.2. Respect for human rights

Risk	Policies	Results
Setting up and maintaining responsible supply chains (aspects relating to respect for human rights)	• Codes of Conduct (§2.2 of the "Ethics and responsibility" section) • Supplier Codes of Conduct (§2.2 of the "Ethics and responsibility" section) • LVMH Charter on Working Relations with Fashion Models (§2.2 of the "Ethics and responsibility" section) • Whistleblowing systems (§5.6 of the "Ethics and responsibility" section) • Risk mapping (§4 of the "Ethics and responsibility" section) • Social audits of suppliers and subcontractors (§5.2 of the "Ethics and responsibility" section) • Collection of information on suppliers' social and ethical performance via the EcoVadis platform (§5.2 of the "Ethics and responsibility" section) • Participation in multi-party initiatives covering suppliers in higher risk categories (§5.2 of the "Ethics and responsibility" section)	• Breakdown of suppliers and audits (§5.2 of the "Ethics and responsibility" section) • Data on combined audits and audits examining only social aspects carried out at suppliers (§5.2 of the "Ethics and responsibility" section) • Data on follow-up audits (§5.2 of the "Ethics and responsibility" section) • Proportion of suppliers not meeting the Group's standards (§5.2 of the "Ethics and responsibility" section) • Number of terminated contracts following audits (§5.2 of the "Ethics and responsibility" section) • Number of business relationships not initiated following audits (§5.2 of the "Ethics and responsibility" section)
Implementation of a policy of employee inclusion and fulfillment (aspects relating to the fight against discrimination and the promotion of diversity)	• Codes of Conduct (§2.2 of the "Ethics and responsibility" section) • Whistleblowing systems (§5.6 of the "Ethics and responsibility" section) • Recruitment Code of Conduct (§2.2 of the "Ethics and responsibility" section) • Specific training for recruiters (§2.3 of the "Attracting and retaining talent" section) • Independent review of hiring practices (§2.3 of the "Attracting and retaining talent" section) • "EXCELLhanCE" initiative to promote training and employment for people with disabilities (§2.3 of the "Attracting and retaining talent" section) • Support for talented women to help them move into key positions (§3.1 of the "Attracting and retaining talent" section)	• Proportion of employees with disabilities (§2.3 of the "Attracting and retaining talent" section) • Proportion of women in key positions (§3.1 of the "Attracting and retaining talent" section) • Number of participants in the coaching program for high-potential female employees (§3.1 of the "Attracting and retaining talent" section) • Proportion of female employees among joiners and in the Group's active workforce (§3.1 of the "Attracting and retaining talent" section) • Number of participants in the EXCELLhanCE initiative (§2.3 of the "Attracting and retaining talent" section)
Shortcomings in the implementation of rules governing the protection of personal data	• Codes of Conduct (§2.2 of the "Ethics and responsibility" section) • Data protection policy (§5.7 of the "Ethics and responsibility" section)	• Creation of a network of Data Protection Officers (§5.7 of the "Ethics and responsibility" section)

7.1.3. Environmental consequences

Risk	Policies	Results
Business impacts on ecosystems and depletion of natural resources (including aspects relating to the fight against climate change)	• LVMH Environmental Charter (§1.1 of the “Environment and sustainability” section) • LIFE program and LIFE 2020 targets (§1.1 and §1.2 of the “Environment and sustainability” section) • Measures to address climate change and the LVMH Carbon Fund (§4 of the “Environment and sustainability” section)	• Improvement in the environmental performance Index scores of product packaging for Wines and Spirits companies and Perfumes and Cosmetics companies (§2.3 of the “Environment and sustainability” section) • Accelerated and expanded rollout of sustainable and organic winegrowing (§3.6 of the “Environment and sustainability” section) • Certification of materials used in products: leather, cotton, fur, palm oil derivatives, diamonds and precious metals (§3.6 of the “Environment and sustainability” section) • Achievement of targets set by the LVMH Carbon Fund (§4.2 of the “Environment and sustainability” section) • Increase in the proportion of renewable energy in the Group’s energy mix (§4.5 of the “Environment and sustainability” section) • Implementation of environmental management systems at manufacturing sites (§5.5 of the “Environment and sustainability” section)
Setting up and maintaining responsible supply chains (environmental aspects)	• Codes of Conduct (§2.2 of the “Ethics and responsibility” section) • Supplier Codes of Conduct (§2.2 of the “Ethics and responsibility” section) • LVMH Environmental Charter (§1.1 of the “Environment and sustainability” section) • LIFE program and LIFE 2020 targets (§1.1 and §1.2. of the “Environment and sustainability” section) • Whistleblowing systems (§5.6 of the “Ethics and responsibility” section) • Risk mapping (§1.2 of the “Ethics and responsibility” section) • Collection of information on suppliers’ environmental performance via the EcoVadis platform (§5.2 of the “Ethics and responsibility” section) • Participation in multi-party initiatives covering suppliers in higher risk categories (§3 of the “Environment and sustainability” section)	• Data on environmental audits carried out at suppliers, both combined audits and audits examining only environmental aspects (§5.2 of the “Ethics and responsibility” section) • LIFE 2020 targets for sourcing, particularly relating to supply chains for grapes, leather, skins and pelts, gemstones and precious metals, palm oil derivatives and regulated chemicals (§3 of the “Environment and sustainability” section)

7.1.4. Fight against corruption

Risk	Policies	Results
Shortcomings in the implementation of business practice compliance arrangements	• Codes of Conduct (§2.2 of the "Ethics and responsibility" section) • Supplier Codes of Conduct (§2.2 of the "Ethics and responsibility" section) • Whistleblowing systems (§5.6 of the "Ethics and responsibility" section) • Ethics and Compliance Intranet sites (§5.6 of the "Ethics and responsibility" section) • Risk mapping (§4 of the "Ethics and responsibility" section) • Role of the Ethics and Compliance Department (§3 and §5.6 of the "Ethics and responsibility" section) • Internal guiding principles (§5.6 of the "Ethics and responsibility" section) • Anti-corruption training (§5.6 of the "Ethics and responsibility" section) • Compliance rules included in the internal audit and control framework (§5.6 of the "Ethics and responsibility" section)	• No cases of corruption or influence peddling noted during the fiscal year • Since the Group's whistleblowing system was officially introduced in the first half of 2018, no instances of alleged corruption or influence peddling have been reported

7.2. VIGILANCE PLAN

As a responsible, actively engaged corporate citizen on a global scale, the Group strives to exert a positive influence on the communities, regions and countries where it operates and to minimize the potential adverse impacts of its activities, as well as those of its suppliers and subcontractors, for its stakeholders and the environment.

The cross-reference tables below provide a summary presentation of the information constituting the vigilance plan, as required by Article L. 225-102-4 of the French Commercial Code, indicating for each item the sections within this Management Report where further details may be found.

7.2.1. Human rights and fundamental freedoms

<table>
<tr><th></th><th>Group’s own operations</th><th>Suppliers’ and subcontractors’ activities</th></tr>
<tr><td>Risk mapping</td><td>• Risk mapping (§4 of the “Ethics and responsibility” section)</td><td>• Risk mapping (§4 of the “Ethics and responsibility” section)
• Additional risk assessment for certain suppliers via the EcoVadis platform (§5.2 of the “Ethics and responsibility” section)</td></tr>
<tr><td>Frequent risk assessments</td><td>• Internal control and audit framework (§3.2 of the “Financial and operational risk management and internal control” section)</td><td>• Audits and follow-up audits (§5.2 of the “Ethics and responsibility” section)
• Corrective action plans following audits (§5.2 of the “Ethics and responsibility” section)</td></tr>
<tr><td>Mitigation and prevention measures</td><td>• Specific training for recruiters to prevent discrimination (§2.3 of the “Attracting and retaining talent” section)
• Independent review of hiring practices (§2.3 of the “Attracting and retaining talent” section)</td><td>• Supplier Codes of Conduct (§2.2 of the “Ethics and responsibility” section)
• Training for suppliers and buyers (§5.2 of the “Ethics and responsibility” section)
• Participation in multi-party initiatives covering suppliers in higher risk categories (§5.2 of the “Ethics and responsibility” section)
• Supply chain certification targets (§5.2 of the “Ethics and responsibility” section)</td></tr>
<tr><td>Whistleblowing system</td><td>• Centralized whistleblowing system (§5.6 of the “Ethics and responsibility” section)</td><td>• The Group’s employees can use the whistleblowing system to report suspected violations by suppliers and subcontractors
• Some Maisons have implemented measures to directly ask their suppliers’ employees about their working conditions (§5.2 of the “Ethics and responsibility” section)</td></tr>
<tr><td rowspan="2">Follow-up and assessment measures</td><td colspan="2">• Action plans implemented by the Maisons in countries identified as priorities during the risk mapping exercise (§5 of the “Ethics and responsibility” section)
• Action plans included as part of the ERICA approach (§5 of the “Ethics and responsibility” section)
• Risk mapping exercises carried out regularly</td></tr>
<tr><td></td><td>• Remediation plans to address shortcomings identified during audits (§5.2 of the “Ethics and responsibility” section)
• Follow-up audits of suppliers (§5.2 of the “Ethics and responsibility” section)</td></tr>
</table>

7.2.2. Individuals' health and safety

	Group's own operations	Suppliers' and subcontractors' activities
Risk mapping	• Risk mapping (§4 of the "Ethics and responsibility" section)	• Risk mapping (§4 of the "Ethics and responsibility" section) • Additional risk assessment for certain suppliers via the EcoVadis platform (§5.2 of the "Ethics and responsibility" section)
Frequent risk assessments	• Internal control and audit framework (§3.2 of the "Financial and operational risk management and internal control" section) • Accident analysis and prevention	• Audits and follow-up audits (§5.2 of the "Ethics and responsibility" section) • Corrective action plans following audits (§5.2 of the "Ethics and responsibility" section)
Mitigation and prevention measures	• LVMH Restricted Substances List, an internal standard (§5.3 of the "Ethics and responsibility" section) • LVMH Testing Program (§5.3 of the "Ethics and responsibility" section) • Promoting responsible consumption of wines and spirits (§5.3 of the "Ethics and responsibility" section) • Third-party liability insurance and product recalls (§2.3 of the "Financial and operational risk management and internal control" section) • Specific insurance policies in countries where work-related accidents are not covered by state insurance or social security regimes (§2.3 of the "Management of financial, operational and internal control risks" section)	• Supplier Codes of Conduct (§2.2 of the "Ethics and responsibility" section) • Training for suppliers and buyers (§5.2 of the "Ethics and responsibility" section) • Participation in multi-party initiatives covering suppliers in higher risk categories (§5.2 of the "Ethics and responsibility" section) • Supply chain certification targets (§5.2 of the "Ethics and responsibility" section) • Assistance guides provided to suppliers for the elimination/substitution of chemicals whose use is restricted or prohibited by LVMH (§5.3 of the "Ethics and responsibility" section) • LVMH Charter on Working Relations with Fashion Models (§2.2 of the "Ethics and responsibility" section)
Whistleblowing systems	• Centralized whistleblowing system (§5.6 of the "Ethics and responsibility" section)	• Group employees can use the whistleblowing system to report suspected violations by suppliers or subcontractors • Some Maisons have implemented measures to directly ask their suppliers' employees about their working conditions (§5.2 of the "Ethics and responsibility" section)
Follow-up and assessment measures	• Action plans implemented by the Maisons in countries identified as priorities during the risk mapping exercise (§5 of the "Ethics and responsibility" section) • Action plans included as part of the ERICA approach (§5 of the "Ethics and responsibility" section) • Risk mapping exercises carried out regularly	• Remediation plans to address shortcomings identified during audits (§5.2 of the "Ethics and responsibility" section) • Follow-up audits of suppliers (§5.2 of the "Ethics and responsibility" section)

7.2.3. Environment

<table>
<tr><th></th><th>Group's own operations</th><th>Suppliers' and subcontractors' activities</th></tr>
<tr><td>Risk mapping</td><td>• Risk mapping (§4 of the "Ethics and responsibility" section)</td><td>• Risk mapping (§4 of the "Ethics and responsibility" section)
• Additional risk assessment for certain suppliers via the EcoVadis platform (§5.2 of the "Ethics and responsibility" section)</td></tr>
<tr><td>Frequent risk assessments</td><td>• Environmental management systems (§5 of the "Environment and sustainability" section)</td><td>• Audits and follow-up audits (§5.2 of the "Ethics and responsibility" section)
• Corrective action plans following audits (§5.2 of the "Ethics and responsibility" section)</td></tr>
<tr><td>Mitigation and prevention measures</td><td>• LIFE 2020 targets (§2 to §5 of the "Environment and sustainability" section)
• Insurance covering environmental losses (§2.3 of the "Management of financial, operational and internal control risks" section)</td><td>• Supplier Codes of Conduct (§2.2 of the "Ethics and responsibility" section)
• Training for suppliers and buyers (§5.2 of the "Ethics and responsibility" section)
• Participation in multi-party initiatives covering suppliers in higher risk categories (§5.2 of the "Ethics and responsibility" section)
• Supply chain certification targets (§5.2 of the "Ethics and responsibility" section)</td></tr>
<tr><td>Whistleblowing system</td><td>• Centralized whistleblowing system (§5.6 of the "Ethics and responsibility" section)</td><td>• Group employees can use the whistleblowing system to report suspected violations by suppliers or subcontractors</td></tr>
<tr><td rowspan="2">Follow-up and assessment measures</td><td colspan="2">• Tracking achievement of LIFE 2020 targets (§2 to §5 of the "Environment and sustainability" section)
• Action plans implemented by the Maisons in countries identified as priorities during the risk mapping exercise (§5 of the "Ethics and responsibility" section)
• Action plans included as part of the ERICA approach (§5 of the "Ethics and responsibility" section)
• Risk mapping exercises carried out regularly</td></tr>
<tr><td></td><td>• Remediation plans to address shortcomings identified during audits (§5.2 of the "Ethics and responsibility" section)
• Follow-up audits of suppliers (§5.2 of the "Ethics and responsibility" section)</td></tr>
</table>

Management Report of the Board of Directors – Financière Agache Group

5. ENVIRONMENT AND SUSTAINABILITY

Given the Group's structure and organization, the Group's policy with respect to the environment and sustainability is led primarily by LVMH and its Maisons, which comprise all of the Group's operating activities.

1. General environmental policy

1.1. ORGANIZATION OF THE GROUP'S ENVIRONMENTAL APPROACH

1.1.1. Governance

For the Group, protecting the environment is much more than an obligation: it is an imperative, a key driver for competitiveness. Having recognized the importance of action in this area more than 25 years ago, LVMH formed an Environment Department in 1992 reporting directly to Executive Management. With a staff of ten, the objectives of this department are to:

- roll out the LIFE (LVMH Initiatives for the Environment) program;
- guide Maisons' environmental policies, in compliance with the LVMH Environmental Charter;
- conduct internal audits to assess Maisons' environmental performance;
- monitor regulatory and technical developments;
- create management tools that address issues such as packaging design, supplier relations and regulatory monitoring;
- help Maisons safeguard against risks;
- train employees and raise environmental awareness at every level of the organization;
- define and consolidate environmental indicators;
- work with the various stakeholders involved (nonprofits, rating agencies, public authorities, etc.).

Each Maison also draws on its own in-house expertise in environmental matters. These experts make up a network of nearly 90 Environment Officers from Maisons, known as the Environment Committee, which meets several times a year, in particular to share and discuss best practices.

In addition, LVMH's ability to drive continuous improvement is closely tied to the Group's success at making sure that its 156,000 employees understand their role as active participants in its approach to environmental matters. The Environment Department thus works to inform, train and raise awareness among employees with regard to the conservation of natural resources. In 2016, the Group established an Environment Academy to serve this role. The Academy designs training programs based on the major objectives of the LIFE program, using a range of learning materials – including face-to-face training sessions, e-learning modules and virtual classes – covering a large number of subjects, from sustainable design to environmental audits. In addition, almost all Maisons continued with their employee environmental training and awareness programs. These programs totaled 20,196 hours.

1.1.2. Commitments

Signed in 2001 by the Group's Chairman, the Environmental Charter is the founding document for LVMH's five main aims with regard to the environment:

- striving for high environmental performance;
- encouraging collective commitment;
- managing environmental risks;
- designing products that factor in innovation and environmental creativity;
- making a commitment that goes beyond the Company.

The Environmental Charter also encourages all Maison Presidents to become directly involved in the approach through concrete actions, and requires each Maison to set up an effective environmental management system, create think tanks to assess the environmental impacts of its products, manage risks, and adopt environmental best practices.

In 2003, LVMH joined the United Nations Global Compact, which aims to promote responsible corporate citizenship through business practices and policies based on ten universal principles, including the following three relating to the environment:

- adopt a precautionary approach to all issues impacting the environment;
- promote greater environmental responsibility;
- favor the development and dissemination of environmentally friendly technologies.

Launched in 2011, the LIFE – LVMH Initiatives for the Environment – program is designed to reinforce the incorporation of environmental concerns into brand strategy, facilitate the development of new coordination tools, and take into account developments and improvements arising from innovative practices at Maisons. The Maisons have incorporated the LIFE program into their strategic plans since 2014. The LIFE program was implemented by a Steering Committee at each Maison and is based on nine key aspects of environmental performance:

- environmental design;
- securing access to strategic raw materials and supply channels;
- traceability and compliance of materials;
- suppliers' environmental and social responsibility;
- preserving critical expertise;
- reducing greenhouse gas emissions;

- environmental excellence in manufacturing processes;
- product life span and reparability;
- customer and key stakeholder information.

In 2018, LVMH was included in the main indices based on responsible investment criteria: FTSE4Good Global 100, Euronext Vigeo Eurozone 120 and ESI (Ethibel Sustainability Indices) Europe.

Environmental expenses are recognized in accordance with the recommendations of the Autorité des Normes Comptables, France's accounting standards authority. Operating expenses and capital expenditure are recognized against each of the following items:

- air and climate protection;
- waste water management;
- waste management;
- protection and purification of soil, groundwater and surface water;
- noise and vibration reduction;
- biodiversity and landscape protection;
- radiation protection;
- research and development;
- other environmental protection measures.

In 2018, expenses related to environmental protection broke down as follows:

- operating expenses: 26.1 million euros;
- capital expenditure: 12.7 million euros.

Provisions for environmental risks amounted to 12.4 million euros as of December 31, 2018. This amount corresponds to the financial guarantees required by law for Seveso upper-tier establishments.

1.2. IDENTIFICATION OF LIFE 2020 RISKS AND TARGETS

1.2.1. Methodology

The environmental indicator reporting process covered the following scope in 2018:

Production facilities, warehouses and administrative sites *(number)*	**2018**
Sites covered [(a)]	266
Sites not covered [(b)]	127
TOTAL NUMBER OF SITES	**393**

(a) Integration of Rimowa and Louis Vuitton manufacturing sites.
(b) Main components: certain regional administrative sites of Louis Vuitton and Moët Hennessy as well as administrative sites with few employees.

97% of production sites are covered. The manufacturing, logistics and administrative sites that are not covered by environmental reporting are essentially excluded for operational reasons and are not material. A plan to gradually include them is underway.

The sales floor space used to calculate energy consumption, greenhouse gas emissions and water consumption is as follows, expressed as a percentage of the Group's total sales floor space:

	% of Group sales floor space taken into account in calculating energy consumption and greenhouse gas emissions [(a)]		**% of Group sales floor space taken into account in calculating water consumption** [(a)]	
	2018	**2017**	**2018**	**2017**
GROUP TOTAL	70	69	19	19

(a) The reporting scope does not cover the stores operated under franchise by Fashion and Leather Goods, Perfumes and Cosmetics, and Watches and Jewelry.

The sales floor space used to calculate energy consumption, greenhouse gas emissions and water consumption at major Maisons is as follows, expressed as a percentage of the total sales floor space of each Maison:

	% of Maison sales floor space taken into account in calculating energy consumption and greenhouse gas emissions		% of Maison sales floor space taken into account in calculating water consumption	
	2018	**2017**	**2018**	**2017**
DFS	77	87	52	54
Louis Vuitton	69	66	16	-
Sephora North America and Latin America	59	71	-	18
Sephora Europe and Asia	80	74	9	8
Le Bon Marché	100	-	100	-
Christian Dior Couture	74	-	22	-

Calculations of energy consumption and greenhouse gas emissions also include all French stores operated by Berluti, Givenchy, Guerlain, Kenzo and Make Up For Ever, and certain stores operated by Acqua di Parma, Benefit, Bvlgari, Celine, Chaumet, Fendi, Fred, Hublot, Loewe, Loro Piana, Marc Jacobs, Parfums Christian Dior, Pucci, TAG Heuer and Pink Shirtmaker.

Calculations of water consumption also include certain stores operated by Berluti, Bvlgari, Chaumet, Fendi, Guerlain, Kenzo and Loewe. The 19% of Group sales floor space taken into account represents total water consumption of 543,000 m^3.

For waste production, only stores operated by DFS, Le Bon Marché and certain Acqua di Parma, Berluti, Bvlgari, Christian Dior Couture, Givenchy, Louis Vuitton and Sephora Europe stores are included in the scope. The 17% of Group sales floor space taken into account represents waste production of 4,760 metric tons.

1.2.2. Main risks

The main environmental risks identified at the Group level relate to:

1. impacts on ecosystems;
2. depletion of natural resources;
3. setting up and maintaining responsible supply chains.

The policies implemented and their results are presented primarily in §3 "LIFE 2020 – 'Sourcing' target" below.

The full materiality matrix provides detailed information on the following environmental issues relating to the Group's business activities:

	Wines and Spirits	Fashion and Leather Goods	Perfumes and Cosmetics	Watches and Jewelry	Selective Retailing
Depletion of energy resources and climate change	• Packaging production; • Distillation; • Product transport; • Grape growing.	• Store lighting and air conditioning; • Product transport; • Production of resources needed to manufacture products: - Plant fibers used for textiles (cotton, etc.), - Leather, including exotic leather, - Fur, - Wool.	• Packaging production; • Store lighting and air conditioning; • Product transport.	• Store lighting and air conditioning.	• Store lighting and air conditioning; • Product transport.
Impact on water resources	• Water consumption (vineyard irrigation in Australia, New Zealand, Argentina and California); • Production of effluents containing organic matter during wine-making and distillation.	• Water consumption (crocodile farms and tanneries); • Production of effluents containing organic matter and minerals (crocodile farms and tanneries).	• Protection and conservation of water resources.		
Impacts on ecosystems and depletion of natural resources	• Production of plant resources needed for other production processes (grape vines, barley, rye, etc.).	• Production of resources needed to manufacture products: - Plant fibers used for textiles (cotton, etc.), - Leather, including exotic leather, - Fur, - Wool.	• Production of plant resources needed to manufacture products.	• Extraction of resources needed to manufacture products: - Gems and precious metals, - Exotic leather.	
Waste recovery and the circular economy	• Residues from wine-making and distillation processes.	• Recycling of raw materials and products at the end of their useful life.	• Recycling of packaging.	• WEEE (waste from electrical and electronic equipment, such as batteries).	• Recycling of point-of-sale advertising and packaging materials.

1.2.3. LIFE 2020 targets

After having conducted an in-depth analysis and mapping of its environmental risks (see above), the Group decided to give its Maisons – regardless of business sector – four shared targets resulting from the LIFE program to be achieved by 2020 (the reference year being 2013, with the values for its indicators presented in the "Baseline" column of the tables presented below):

- sustainable product design: By 2020, the Group's Maisons must make all their products more environmentally friendly. The Group's Perfumes and Cosmetics Maisons, and Wines and Spirits Maisons undertake to improve their Environmental Performance Index (EPI) score by 10%. The Group's Fashion and Leather Goods Maisons, and Watches and Jewelry Maisons are working to reduce their environmental impact arising from the sourcing of raw materials;
- suppliers and raw materials: Maisons must ensure that optimum standards are rolled out in their procurement of raw materials supplies and among their suppliers across 70% of the supply chain by 2020 and 100% by 2025;
- cut energy-related CO_2 emissions by 25%;
- make all production sites and stores more environmentally friendly: Maisons undertake to reduce at least one of three indicators (water consumption, energy consumption and waste production) by 10% at each of their sites, and to have an effective environmental management system focused on continuous improvement. Stores must be made 15% more energy efficient and new stores will have to achieve a minimum performance of 50% according to the LVMH Store Guidelines score chart.

2. LIFE 2020 – "Products" target

2.1. OBJECTIVES

The Group's Maisons have always worked to limit the impact of their products on the natural environment. LIFE 2020 encourages them to do more by setting a new goal: improving the environmental performance of all their products, across their entire life cycle. The other LIFE 2020 targets cover the environmental impact of the steps involved in sourcing raw materials, production, transport and sales. With respect to this objective, sustainable design is the key priority for all of the Group's Maisons. Two of its essential components are the guarantee of superior quality and a constant focus on innovation. In taking up this challenge, the Maisons have access to the range of tools developed with their input by LVMH's Environment Department. These tools include Edibox, a web-based tool that calculates environmental performance indices (EPIs) for product packaging as well as the carbon footprint of the materials used to manufacture this packaging. This calculation results in a score for each product's packaging, depending on its weight and volume, the number of layers of packaging used, and the separability of the various components.

LVMH's Perfumes and Cosmetics Maisons, and Wines and Spirits Maisons undertake to improve their Environmental Performance Index (EPI) score for product packaging by 10% by 2020. The Group's Fashion and Leather Goods Maisons, and Watches and Jewelry Maisons are working to reduce their environmental impact arising from the sourcing of raw materials.

2.2. BREAKDOWN

The following items are taken into account in calculating the EPIs of product packaging:

- Wines and Spirits: Bottles, boxes, caps, etc.
- Fashion and Leather Goods: Boutique bags, pouches, cases, etc.
- Perfumes and Cosmetics: Bottles, cases, etc.
- Watches and Jewelry: Cases, boxes, etc.
- Selective Retailing: Boutique bags, pouches, cases, etc.

Packaging used for transport is not included in this breakdown.

2.3. TRACKING TARGET ACHIEVEMENT

Progress toward meeting the LIFE 2020 "Products" targets

Indicators	Baseline (2013)	Performance in 2018	Target for 2020
EPI score for Perfumes and Cosmetics packaging	8.32	8.55 (+4%)	+10%
EPI score for Wines and Spirits packaging	Champagne: 16.03 Cognac: 10.60	16.88 (+5%) 11.90 (+12%)	+10%

The weight of packaging that reaches customers changed as follows between 2017 and 2018:

(in metric tons)	2018	2017	2018 pro forma [1]	Change [1] *(as %)*
Wines and Spirits	159,844	161,890	154,688	(4)
Fashion and Leather Goods	11,059	9,522	10,971	15 [a]
Perfumes and Cosmetics	29,167	28,340	29,167	3
Watches and Jewelry	4,834	4,880	4,834	(1)
Selective Retailing	4,651	5,177	4,651	(10)
TOTAL	**209,555**	**209,809**	**204,311**	**(3)**

(a) Change related to business activity and optimization of reporting process.

(1) Value and change at constant scope.

The total weight of packaging that reaches customers, by type of material, broke down as follows in 2018:

(in metric tons)	Glass	Paper-cardboard	Plastic	Metal	Fabric	Other packaging material
Wines and Spirits	138,968	15,650	1,809	1,807	75	1,535
Fashion and Leather Goods	-	9,355	130	25	1,530	19
Perfumes and Cosmetics	15,094	4,886	6,914	1,935	97	241
Watches and Jewelry	1,936	1,248	1,234	184	152	80
Selective Retailing	99	3,152	1,323	68	1	8
TOTAL	**156,097**	**34,291**	**11,410**	**4,019**	**1,855**	**1,833**

3. LIFE 2020 – “Sourcing” target

3.1. JOINT ACTIONS AND COMMON GOALS

The Group’s heavy dependence on natural resources, together with its strong values and commitments, prompted the Group to put in place a sustainable sourcing policy a number of years ago. LVMH pays very close attention to the traceability and compliance of the materials and substances used to manufacture its products. The Group promotes responsible purchasing practices and works to ensure that its supply chains are more environmentally sustainable, in close collaboration with its suppliers and subcontractors.

LVMH has a strategy in place for sourcing and preserving raw materials, governed by the LIFE 2020 targets, which commit Maisons, between now and 2020, to buying and producing at least 70% of their core raw materials in accordance with optimum environmental standards for raw material sourcing and production sites. Choosing components for product manufacturing is an essential part of preserving the environment, especially rare resources that are vital for product manufacturing. To reinforce this approach, a number of projects are underway to develop new, responsible supply channels for the Perfumes and Cosmetics, Fashion and Leather Goods, and Watches and Jewelry business groups.

Furthermore, the Maisons have implemented procedures to ensure that all of their products comply with CITES, a convention on international trade in endangered species. Through a system of import-export permits, this convention was set up to prevent overexploitation of certain species of endangered fauna and flora.

The “Sourcing” target concerns the following raw materials in particular:

- grapes;
- leathers, raw lamb and calf skins, exotic leathers and furs;
- gems and precious metals;
- palm oil and its derivatives;
- regulated chemicals. All Maisons have incorporated the requirements of the REACH Commission Regulation into their contractual documents so as to engage all suppliers in this undertaking.

LVMH takes a long-term and global approach to its actions in this area, alongside many partners working to conserve biodiversity. LVMH was the first private-sector entity to join the eight public research bodies on the Board of Directors of the French Foundation for Research on Biodiversity (FRB). The Group is now an official member of the FRB, with which it has been working for more than seven years. Sylvie Bénard, LVMH’s Environment Director, has also served as Vice-President of the Foundation’s Strategic Orientation Committee for four years. As part of this committee – which brings together more than 160 stakeholders to jointly design research programs that promote biodiversity – the Group has focused in particular on the issue of access to genetic resources and sharing the benefits resulting from their use.

3.2. WINES AND SPIRITS

For historical and strategic reasons, the Wines and Spirits business group is actively committed to sustainable and/or organic winegrowing, both of which are helping to considerably reduce its environmental impact, in particular by limiting the use of plant protection products.

Stepping up the roll-out of sustainable and/or organic winegrowing at the Maisons' vineyards and among grape suppliers (independent grape suppliers) has thus been adopted as a LIFE 2020 target. Various certification systems have been established across winegrowing regions: Viticulture Durable en Champagne for champagne houses, Haute Valeur Environnementale (HVE) 3 for cognac, organic farming for certain vineyards, Napa Green in California, etc.

3.3. FASHION AND LEATHER GOODS

The Fashion and Leather Goods business group has adopted five major targets for 2020:

- at least 70% of leather purchased from LWG-certified tanneries. LWG certification is a very ambitious standard created by the Leather Working Group to improve the environmental performance of tanneries (energy, water, waste, traceability);
- at least 70% of cotton purchased from sustainable cotton sources. LVMH has joined the Better Cotton Initiative (BCI), which has developed a standard to encourage measurable improvements in the main environmental impacts of growing cotton on a global scale;
- certification for all crocodile farms supplying the Group's exotic leather tannery;
- at least 80% of pelts supplied by certified fur farms by the end of 2019, in particular by rolling out FurMark certification;
- integration of the Animal Sourcing Principles – developed with the Business for Social Responsibility (BSR) non-profit – into supplier contracts. LVMH shares civil society's aim of improving animal welfare, which is connected to many raw materials such as leather, wool and fur. The Group has adopted formal rules that require its Maisons and their suppliers to implement best practices for animal welfare.

3.4. PERFUMES AND COSMETICS

The Perfumes and Cosmetics business group has set LIFE 2020 targets relating to its suppliers and supply chains, in particular by developing a system to assess their environmental and social performance. Initial performance targets have been set for suppliers of packaging and ingredients. The business group also takes part in specific initiatives related to the sourcing of palm oil (RSPO) and mica (RMI).

LVMH's Research & Development Department and Maisons have been carrying out ethnobotanical studies for a number of years. They seek to identify plant species with a particular interest as components of cosmetic products while contributing to the preservation of these species and to local economic development. This partnership can take a variety of forms such as financial support, technical or scientific assistance, or skills sponsorship, sharing the expertise of LVMH's staff with its partners. As part of this initiative, Parfums Christian Dior's Dior Gardens are plots dedicated to cultivating plant species chosen for their exceptional properties. Guerlain has also launched a number of partnerships focused on orchids in China, vetiver in India, honey in Ouessant in France, sandalwood in Asia and lavender from the south of France.

3.5. WATCHES AND JEWELRY

As part of the LIFE 2020 targets, all of the Watches and Jewelry Maisons have received certification under the Responsible Jewellery Council (RJC) system. In line with this certification, which has been extended to their gold and diamond supply chains, they are expanding their responsible sourcing efforts. Bvlgari is particularly active in this area, and has become the first company in its market to obtain the RJC Chain of Custody (CoC) certification for gold. The Group and its Maisons are also involved in an initiative to promote environmental and social best practices in the sourcing of colored gemstones. Several audits have already been carried out.

3.6. TRACKING TARGET ACHIEVEMENT

Progress toward meeting the LIFE 2020 "Sourcing" targets

Indicators	Baseline (2013)	Performance in 2018	Target for 2020
Wines and Spirits			
Sustainable winegrowing certification *(certified grapes by weight, as %)*	LVMH vineyards: French vineyards: 100% Grape suppliers: Champagne (7%)	LVMH vineyards: French vineyards: 100% Rest of the world: 44% Grape suppliers: Champagne (10%)	LVMH vineyards: French vineyards: 100% Rest of the world: 100%
Fashion and Leather Goods			
LWG-certified tanneries *(leather from certified tanneries by weight, as %)*	25%	48%	70%
Certified cotton (BCI, organic, etc.)	2%	15%	70%
Perfumes and Cosmetics			
Perfume ingredient supplier performance	64	85	90
Cosmetics ingredient supplier performance	56	75	80
Palm oil derivatives *(RSPO-certified Mass Balance or Segregated palm oil derivatives by weight, as %)*	0%	79%	70%
Watches and Jewelry			
Diamonds: RJC COP certification	90%	99%	100%
Gold: RJC COP certification RJC CoC certification	94% -	84% 77%	100% 100%

4. LIFE 2020 – "Climate change" target

4.1. COMMON GOAL

Combating climate change is a major focus of LVMH's environmental policy. The Group has often played a pioneering role in this area. In the early 2000s, for example, it took part in testing the carbon assessment method that would later become the Bilan Carbone®. In 2015 it was also the first luxury company to set up an internal carbon fund. From energy consumption to manufacturing, transport and logistics to work habits, LVMH is looking at all possible ways to reduce the climate impact of its activities.

As part of LIFE 2020, the Group has set itself a new target to speed up its progress, now aiming to cut energy-related CO_2 emissions by 25% between 2013 levels and 2020. Actions are being pursued on three fronts: improving monitoring and reporting processes; increasing the energy efficiency of operations, particularly at the Group's stores; and expanding the use of renewable energy.

In 2016, a specific study was carried out assessing the environmental impact of the Group's raw material production and supply chain. Across the Group's entire value chain, 50% of emissions are generated by the production of raw materials and 30% by inbound and outbound transport. Next come emissions generated by the Maisons' production sites, logistics centers, offices and stores (20%), either direct (Scope 1) or indirect (Scope 2). Downstream emissions generated by using products (washing fashion products, rinsing certain cosmetic products, etc.) or when products come to the end of their useful life will be refined at a later stage.

4.2. THE LVMH CARBON FUND

Created in 2016, the LVMH Carbon Fund is a key element of LIFE 2020's strategy to address climate change. Each Maison's expected annual contribution is calculated by multiplying the greenhouse gas emissions resulting from its business activities by the carbon price set by LVMH, which went from 15 to 30 euros per metric ton in 2018. The amount thus obtained must be invested the following year in projects aimed at reducing emissions. The LVMH Carbon Fund reached its target in 2018, with 11.4 million euros in financing for 112 projects that could help avoid 2,800 metric tons of greenhouse gas emissions per year.

4.3. ENERGY EFFICIENCY AND RENEWABLE ENERGY

Improving energy efficiency and expanding the use of renewable energy are the main thrusts of LVMH's strategy to limit its carbon footprint, an approach that also entails better energy management, which is vital to help reduce overall energy consumption.

4.3.1. Energy consumption

Total energy consumption amounted to 1,096,760 MWh in 2018 for the Group's subsidiaries included in the reporting scope. This corresponds to primary energy sources (such as fuel oil, butane, propane and natural gas) added to secondary energy sources (such as electricity, steam and ice water) mainly used for the implementation of manufacturing processes in addition to buildings and stores' air conditioning and heating systems.

Energy consumption by business group changed as follows between 2017 and 2018:

(in MWh)	**2018**	**2017**	**2018 pro forma** [(1)]	**Change** [(1)] *(as %)*
Wines and Spirits	220,454	188,292	217,135	15 [(a)]
Fashion and Leather Goods	393,598	371,105	361,135	(2)
Perfumes and Cosmetics	94,044	90,160	92,726	3
Watches and Jewelry	40,935	35,924	36,515	2
Selective Retailing	325,723	296,537	279,257	(4)
Other activities	22,006	17,091	18,486	8
TOTAL	**1,096,760**	**999,109**	**1,005,254**	**1**

(a) Change due to increase in business activity and the installation of new equipment at a Glenmorangie site.

(1) Value and change at constant scope.

Energy consumption by business group and by energy source was as follows in 2018:

(in MWh)	Electricity	Natural gas	Heavy fuel oil	Fuel oil	Butane/ Propane	Steam	Ice water	Renewable energies
Wines and Spirits	21,387	73,151	23,790	26,101	3,047	-	-	72,978
Fashion and Leather Goods	158,684	114,608	-	8,546	6,156	2,124	2,392	101,088
Perfumes and Cosmetics	7,769	31,263	-	1,874	-	1,236	405	51,497
Watches and Jewelry	14,062	6,853	-	867	149	-	-	19,004
Selective Retailing	182,182	31,157	-	1,159	4	5,182	9,932	96,107
Other activities	3,689	4,386	-	1,259	43	1,717	3,590	7,322
TOTAL	**387,773**	**261,418**	**23,790**	**39,806**	**9,399**	**10,259**	**16,319**	**347,996**

4.3.2. Direct emissions (Scope 1) and indirect emissions (Scope 2)

Scope 1 emissions are those generated directly by sites, mainly through the combustion of fuel oil and natural gas. Scope 2 emissions are those generated indirectly from energy use, mainly electricity used on-site. Measures to reduce these emissions have been in place for a number of years at Maisons' production sites. The Maisons are also working hard to improve energy efficiency at their points of sale, the main source of LVMH's greenhouse gas emissions. Thanks to their efforts, one of the LIFE 2020 targets has already been achieved: a 15% improvement in the average energy efficiency of existing stores, in particular by installing the advanced lighting systems offered by the LVMH Lighting program and by rolling out the LVMH Store Guidelines (see §5 "LIFE 2020 – 'Sites' target").

CO_2 emissions by business group changed as follows between 2017 and 2018:

(in metric tons of CO_2 equivalent)	CO_2 emissions in 2018	Of which: Direct CO_2 emissions *(as %)*	Of which: Indirect CO_2 emissions *(as %)*	CO_2 emissions in 2017	CO_2 emissions in 2018 pro forma [1]	Change [1] *(as %)*
Wines and Spirits	40,845	72	28	36,442	40,454	11 [a]
Fashion and Leather Goods	113,783	24	76	104,990	99,401	(5)
Perfumes and Cosmetics	12,807	54	46	11,892	12,025	4
Watches and Jewelry	7,027	24	76	5,633	4,718	(15) [b]
Selective Retailing	117,978	6	94	116,375	97,912	(14) [c]
Other activities	3,319	38	62	2,800	2,995	7
TOTAL	**295,759**	**25**	**75**	**278,132**	**257,505**	**(6)**

(a) Change due to increase in business activity and the installation of new equipment at a Glenmorangie site.
(b) Change mainly related to the switch to renewable energy at certain sites.
(c) Change mainly related to the switch to renewable energy at certain sites as well as the rollout of energy-saving technologies.

(1) Value and change at constant scope.

4.3.3. Raw materials and transport (Scope 3)

The study carried out in 2016 on the environmental impact of producing the raw materials needed to manufacture the Maisons' products was updated in 2018. It showed that over 70% of emissions come from leather, grapes and glass for packaging. With the help of its partners, the Group is continuing to work on quantifying these emissions, as well as fine-tuning how it assesses the impact of raw materials like leather, gold and cotton:

- production of raw materials: The main sources of greenhouse gas emissions are leather production (432,000 tCO_2e), winegrowing (172,000 tCO_2e, which includes vineyards belonging to the Group's Maisons as well as grape suppliers) and glass for packaging (158,000 tCO_2e);
- inbound transport: Movement of raw materials and product components to production sites. Only the main materials and components are taken into account;
- outbound transport: Movement of finished products from production sites to distribution platforms.

In 2018, the distribution of greenhouse gas emissions generated by inbound transport broke down as follows:

(in metric tons of CO_2 equivalent)	Road	Air	Ship	Total
Wines and Spirits	16,294	407	1,120	17,821
Fashion and Leather Goods	966	15,876	52	16,894
Perfumes and Cosmetics	1,205	37,239	457	38,901
Watches and Jewelry	3	1,997	1	2,001
Selective Retailing	-	-	-	-
TOTAL	**18,468**	**55,519**	**1,630**	**75,617**

In 2018, the distribution of greenhouse gas emissions generated by outbound transport broke down as follows:

(in metric tons of CO_2 equivalent)	Road	Rail	Air	Ship	Inland barge	Electric vehicle	Liquid natural gas	Total
Wines and Spirits	23,020	587	42,949	18,344	203	4	209	85,316
Fashion and Leather Goods	18,478	40	173,238	134	1	-	154	192,045
Perfumes and Cosmetics	2,911	-	279,969	2,632	-	-	-	285,512
Watches and Jewelry	349	-	39,179	196	-	-	-	39,724
Selective Retailing	3,124	-	10,802	185	-	81	-	14,192
TOTAL	**47,882**	**627**	**546,137**	**21,491**	**204**	**85**	**363**	**616,789**

Rimowa, Château Cheval Blanc, Le Bon Marché, Château d'Yquem, DFS, Fred, Rossimoda and Les Echos did not report their data for this indicator.

4.3.4. Renewable energies

Alongside actions to reduce its fossil fuel consumption, LVMH is rapidly expanding its use of renewable energy: between 2013 and 2018, the proportion of renewables in the Group's energy mix rose from 1% to more than 27%. Framework agreements signed with energy suppliers have been one of the main drivers of the Group's progress in this area. The first of these dates back to 2015 and supplies green electricity to LVMH's 450 sites in France, belonging to 27 of its Maisons. A similar agreement was signed in 2016 for the supply of electricity to several Maisons in Italy and a third is in preparation for sites in Spain. Many sites have also installed solar panels or geothermal systems.

4.4. PROSPECTS FOR ADAPTING TO CLIMATE CHANGE

To accompany its initiatives, the Group is also conducting a review of the various issues involved in adapting to climate change. In the medium term, changing winegrowing practices is the main component of the Group's adaptation strategy. Several solutions are available for European vineyards depending on the extent of climate change, from altering harvest dates to developing different methods of vineyard management (such as widening rows, increasing the size of grapevine stocks and employing irrigation in certain countries) and testing new grape varieties. For vineyards in Argentina and California, the main issue is water availability (see §5.3 "Water consumption and preventing pollution"). Lastly, according to current scientific knowledge, vineyards in New Zealand and Western Australia are the least susceptible to climate change.

4.5. TRACKING TARGET ACHIEVEMENT

Progress toward meeting the LIFE 2020 "Climate change" targets

Indicators	Baseline (2013)	Performance in 2018	Target for 2020
CO_2 emissions	220,480 tCO_2e	-16%	Cut energy-related CO_2 emissions by 25% (Scope 1 and 2 at constant scope)
Proportion of renewable energy in the Group's energy mix	1%	27%	Raise the proportion of renewables in the Group's energy mix to at least 30%
Store energy efficiency *(in kWh/m²)*	460 kWh/m²	-16%	Improve store energy efficiency by 15% *(in kWh/m²)* (target met as of 2017)

5. LIFE 2020 – "Sites" target

5.1. OBJECTIVES

Since it was launched in 2012, the LIFE program has focused on ensuring that the Group's sites are environmentally friendly. LIFE 2020 further strengthens these commitments. As a major player in the luxury industry, LVMH aims to ensure that its 393 manufacturing and administrative sites as well as its 4,000 stores are exemplary in this area. The Group has asked its Maisons to put in place environmental management systems at all of their production sites, and at their administrative sites with more than 50 employees.

The Maisons must also commit to a focus on continuous improvement. Taking 2013 as the baseline, LVMH is asking them to reduce at least one of the following indicators by at least 10%: water consumption, energy consumption, or waste production. They have also been assigned specific targets for their stores. Stores must achieve a score of at least 50 out of 100 for their environmental performance on the LVMH Store Guidelines scale, which was developed in 2016 on the basis of the most stringent international standards. It identifies the 10 most important factors contributing to a store's environmental performance, from the building's insulation and lighting density to heating and air conditioning. This checklist was drawn up as part of the LVMH LIFE in Stores program, the aim of which is to encourage the integration of environmental issues at an early stage in the development of store projects, preferably from the design phase.

5.2. ENVIRONMENTAL MANAGEMENT AND CERTIFICATION SYSTEMS

The Group has decided to extend the implementation of environmental certification programs to all its sites, because this serves as a dynamic, unifying and motivating tool to promote continuous improvement. This approach to certification is not new for the Maisons: the LVMH Environmental Charter already requires that they put in place an environmental management system reporting to Executive Management. Many of them have opted for ISO 14001 certification. Hennessy has played a pioneering role in this regard, becoming the world's first wines and spirits company to obtain ISO 14001 certification in 1998. At the end of 2018, 53% of all the Group's manufacturing, logistics and administrative sites (and 63% of its manufacturing sites alone) were ISO 14001-certified.

5.3. WATER CONSUMPTION AND PREVENTING POLLUTION

5.3.1. Breakdown of water consumption

Water consumption is broken down into the following requirements:

- Process requirements: Use of water for cleaning purposes (tanks, products, equipment, floors), air conditioning, employees, product manufacturing, etc. Such water consumption generates waste water;
- Agricultural requirements: Water used for vineyard irrigation outside France, as irrigation is not used for the Group's vineyards in France. Water is taken directly from the natural environment for irrigation purposes, with water use from year to year closely linked to changes in weather conditions. However, it should be noted that water consumption for agricultural requirements is assessed by sites with a higher level of uncertainty than water consumption for process requirements.

Water consumption changed as follows between 2017 and 2018:

(in m³)	2018	2017	2018 pro forma [1]	Change [1] *(as %)*
Process requirements	4,170,596	3,876,536	4,045,833	4
Agricultural requirements (vineyard irrigation)	5,568,770	4,721,037	5,568,759	18 [a]

(a) Change mainly related to increased irrigation requirements due to extended drought conditions in Argentina and California.

Water consumption for process requirements broke down as follows by business group:

(process requirements in m³)	2018	2017	2018 pro forma [1]	Change [1] *(as %)*
Wines and Spirits	1,193,364	1,151,814	1,183,962	3
Fashion and Leather Goods	1,996,697	1,714,661	1,872,325	9
Perfumes and Cosmetics	211,493	178,646	211,395	18 [a]
Watches and Jewelry	81,279	91,416	99,770	9
Selective Retailing	422,774	483,950	420,855	(13) [b]
Other activities	264,989	256,049	257,526	1
TOTAL	**4,170,596**	**3,876,536**	**4,045,833**	**4**

(a) Change related to business activity and improvements in reporting processes.
(b) Change related to business activity and improvements in equipment.

An in-depth analysis of sensitivity to local constraints was carried out at each of the Group's Maisons using Pfister's 2009 water scarcity index and the 2012 Aquastat database. This analysis was based on measurements of each geographic area's sensitivity, obtained by comparing water consumption to available resources at the local level. Four Maisons whose water consumption is significant relative to the Group as a whole are located in areas where water stress is close to 100%, meaning that water requirements in these areas are close to the level of available resources:

- the Domaine Chandon Argentina vineyards (Agrelo and Terrazas), which represent 85% of the Group's agricultural water requirements;
- the Domaine Chandon California and Newton vineyards, which represent 7% of the Group's agricultural water requirements.

Vineyard irrigation is an authorized, supervised practice in California and Argentina due to the climate. Such irrigation is necessary for winegrowing. Nevertheless, the Group has taken the following measures to limit water consumption: harvesting rainwater; implementing protocols to measure and specify water requirements; standardizing drip irrigation practices in California; using weather forecasts to optimize irrigation; and adopting the "regulated deficit irrigation" technique, which reduces water consumption and improves grape quality and grapevine size, yielding an enhanced concentration of aroma and color.

5.3.2. Preventing pollution

The only significant, relevant indicator related to preventing water pollution is the release of substances into water by Wines and Spirits, Fashion and Leather Goods, and Perfumes and Cosmetics operations contributing to eutrophication. The Group's other activities have only a very limited impact on water quality. Eutrophication is the excessive buildup of algae and aquatic plants caused by excess nutrients in the water

(1) Value and change at constant scope.

(particularly phosphorus), which reduces water oxygenation and adversely affects the environment. The parameter used is the Chemical Oxygen Demand (COD) calculated after treatment of the discharges in the Group's own plants or external plants with which the Group has agreements. The following operations are considered treatment: city and county wastewater collection and treatment, independent collection and treatment (aeration basin) and land application.

COD after treatment changed as follows between 2017 and 2018:

COD after treatment *(metric tons/year)*	**2018**	**2017**	**2018 pro forma** [1]	**Change** [1] *(as %)*
Wines and Spirits	1,066	1,611	1,065	(34) [a]
Fashion and Leather Goods	64	39	64	65 [b]
Perfumes and Cosmetics	10	9	10	9
TOTAL	**1,140**	**1,659**	**1,139**	**(31)**

(a) Change related to improvement of wastewater treatments. In 2017, the installation of an innovative wastewater treatment system enabled Glenmorangie to significantly reduce its COD after treatment. This system completed its first full year of service in 2018; this explains the significant decrease over the year.
(b) Change related to business activity and improvements in reporting processes.

Measurement frequencies at the highest-contributing Maisons are compliant with local regulations but remain limited with regard to the changes observed in quantities discharged.

Volatile Organic Compound (VOC) emissions are addressed through specific action plans, notably for Perfumes and Cosmetics operations and the tanneries.

5.4. REDUCING AND RECOVERING WASTE

5.4.1. Waste produced and recovered

In 2018, 91% of waste was recovered (91% in 2017). Recovered waste is waste for which the final use corresponds to one of the following channels, listed in descending order of interest in accordance with European and French laws:

- re-use, i.e. the waste is used for the same purpose for which the product was initially designed;
- recovery of materials, i.e. recycling (direct reintroduction of waste into its original manufacturing cycle resulting in the total or partial replacement of an unused raw material) or controlled composting or land treatment of organic waste to be used as fertilizer;
- incineration for energy production, i.e. recovery of energy in the form of electricity or heat by burning the waste.

The weight of waste generated changed as follows between 2017 and 2018:

(in metric tons)	**Waste produced in 2018**	**Of which: hazardous waste produced in 2018** [a]	**Waste produced in 2017**	**Waste produced in 2018 pro forma** [1]	**Change in waste produced** *(as %)* [1]
Wines and Spirits	65,423	646	48,410	65,089	34 [b]
Fashion and Leather Goods	16,603	3,150	12,505	14,628	17 [c]
Perfumes and Cosmetics	10,191	2,347	8,741	10,190	17 [d]
Watches and Jewelry	881	214	904	872	(4)
Selective Retailing	6,852	8	5,994	6,503	9
Other activities	2,234	106	1,995	2,104	5
TOTAL	**102,184**	**6,471**	**78,549**	**99,386**	**27**

(a) Waste that must be sorted and processed separately from non-hazardous waste (such as cardboard, plastic and paper).
(b) Change related to the increase in pressing waste due to exceptional harvests.
(c) Change related to exceptional maintenance operations at the Heng Long tannery.
(d) Change related to business activity.

(1) Value and change at constant scope.

Waste was recovered as follows in 2018:

(as % of waste produced)	Re-used	Recovery of materials	Waste-to-energy recovery	Total recovery
Wines and Spirits	4	88	6	98
Fashion and Leather Goods	2	37	32	71
Perfumes and Cosmetics	1	70	24	95
Watches and Jewelry	12	34	33	79
Selective Retailing	4	44	32	80
Other activities	4	10	79	93
TOTAL	**3**	**73**	**15**	**91**

The Perfumes and Cosmetics Maisons, as well as Sephora since 2010 and Louis Vuitton since 2011, have used the CEDRE (Centre environnemental de déconditionnement, recyclage écologique) recovery and recycling facility to handle all the waste generated by the manufacturing, packaging, distribution, and sale of cosmetic products. CEDRE accepts several types of articles: obsolete packaging, alcohol-based products, advertising materials, store testers, and empty packaging returned to stores by customers. In 2014, the service was expanded to accept textiles. In 2018, around 2,174 metric tons of waste were processed. The various materials (glass, cardboard, wood, metal, plastic, alcohol and cellophane) are resold to a network of specialized recyclers.

5.4.2. Actions to combat food waste

La Grande Épicerie de Paris, which has a number of fresh food production facilities, has developed a reliable system for predicting sales in order to adapt production to sales volumes on a daily basis and avoid food waste.

In 2018, its partnership with the Red Cross – which collects any unsold prepared food each day – was extended to include new categories and new products. A new partnership was launched in 2018 with Too Good To Go, an app that lets stores give their unsold items to its users.

Both La Grande Épicerie Rive Droite and La Grande Épicerie Rive Gauche are looking into setting up new partnerships with organizations and companies active in this field, and plan to extend the selection of products offered under these partnerships.

In light of the Group's business activities, food insecurity and actions promoting responsible, fair and sustainable food use do not constitute key risks.

5.5. TRACKING TARGET ACHIEVEMENT

Progress toward meeting the LIFE 2020 "Sites" targets

Indicators	Baseline (2013)	Performance in 2018	Target for 2020
Presence of environmental management systems (ISO 14001, EMAS, etc.) at manufacturing sites	60%	63%	Rollout of an environmental management system (ISO 14001, EMAS, etc.) at all manufacturing sites

Management Report of the Board of Directors – Financière Agache group

6. ATTRACTING AND RETAINING TALENT

1. General policy

The Group's approach to workforce-related responsibility is led by LVMH and its subsidiaries, which employ the entire workforce of the Financière Agache group.

At the center of the Group's actions is a strong conviction: people make the difference. To support its growth, the Group must attract and develop the best people on every continent. Fostering the right conditions to enable them to succeed within the Group's ecosystem is vital to its long-term success.

The Group's critical objectives include attracting the best people through an ambitious recruitment process open to all talented individuals and offering employees a work environment that encourages them to flourish and give the very best of themselves.

These two key components of the Group's human resources policy are therefore both presented in this section, preceded by general information about the Group's approach to workforce-related responsibility, how workforce-related reporting is organized and key data about the workforce.

1.1. ORGANIZATIONAL ARRANGEMENTS WITH REGARD TO WORKFORCE-RELATED RESPONSIBILITY

A dedicated annual survey is run on the workforce-related responsibility measures taken by the Maisons. This survey, which spans all Maisons, covers human rights, diversity, preventing discrimination, skills development, working conditions, listening to employees, labor relations and engaging with local communities. The survey form includes references to the conventions and recommendations of the International Labor Organization, where relevant.

The Group's approach to workforce-related responsibility is structured around four priorities, identified through discussions and interactions with its various stakeholders and an analysis of the challenges facing the Group.

The risk-mapping exercise carried out at the level of LVMH and each of the Maisons has supplemented this approach, notably by identifying factors relating to individual countries where the Group operates and the types of activities undertaken in regard to the following subjects: decent pay and working hours, non-discrimination in the workplace, freedom of association and trade union membership.

These components are as follows: developing talent and skills, paying constant attention to working conditions, preventing all forms of discrimination as well as respecting each person as a unique individual, and engaging with communities to help local populations.

These priorities, which are common to all the Maisons, provide an overall framework for action while leaving the Maisons free to identify other priorities specific to their business and environment, and to draw up their own action plans.

1.2. ORGANIZATION OF WORKFORCE-RELATED REPORTING

The Group works hard to ensure the quality and completeness of workforce-related data through rigorous collection and validation processes.

Collection and validation of workforce-related reporting data

Human Resources Directors at each Maison, who are responsible for reporting across their respective scope, appoint a reporter for each company who is tasked with collecting and reporting all workforce-related data, as well as a reviewer responsible for checking the data this reported and verifying that it is accurate by applying an electronic signature when validating the online questionnaire. Each Maison's Human Resources Director approves the process as a whole by signing a letter of representation.

Computer checks are implemented throughout the reporting cycle to confirm the reliability and consistency of the data entered.

Since fiscal year 2007, selected employee-related disclosures for the Group have been verified each year by one of the Statutory Auditors. For fiscal year 2018, company data was verified by Ernst & Young, in accordance with Article R. 225-105-2 of the French Commercial Code (in its version resulting from the transposition into French law of European Directive 2014/95/EU on disclosure of non-financial and diversity information by certain large undertakings and groups).

A support guide is available to everyone involved in Group workforce-related reporting. This guide is intended to familiarize staff with the goals of the Group's approach and to help them better understand the methods used to calculate key indicators. A descriptive sheet is available for each employee-related indicator specifying its relevance, the elements of information tracked, the procedure to be applied to gather information, and the various controls to be performed when entering data.

Scope of workforce-related reporting

The reconciliation of organizational and legal entities ensures consistency between the workforce and financial reporting systems. Accordingly, the scope of reporting on employee-related issues covers all staff employed by fully consolidated Group companies, but does not include equity-accounted associates.

Workforce information set out below includes all consolidated companies as of December 31, 2018, including LVMH's share in joint ventures, with the exception of certain companies that have been part of the Group for less than a year. Other employee-related indicators were calculated for a scope of 740 organizational entities covering nearly 99% of the global workforce and encompass all staff employed during the fiscal year, including those employed by joint ventures.

The Group's employees in China are included in the number of staff working under permanent contracts (13,595 as of December 31, 2018). Although Chinese labor legislation limits the duration of employment contracts, which can only become permanent after several years, the Group considers employees working under such contracts as permanent.

1.3. KEY WORKFORCE DATA

Total headcount as of December 31, 2018 stood at 156,088 employees, up 7% compared with 2017. Of this total, 139,715 employees were working under permanent contracts and 16,373 under fixed-term contracts. Part-time employees represented 18% of the total workforce, or 28,349 individuals.

Staff outside France represented 80% of the global workforce.

The Group's average total full-time equivalent (FTE) workforce in 2018 comprised 136,633 employees, up 8% compared with 2017.

1.3.1. Breakdown of the workforce by business group, geographic region and professional category

Breakdown by business group

Total headcount as of December 31 [a]	**2018**	**%**	**2017**	**%**
Wines and Spirits	7,380	5	7,157	5
Fashion and Leather Goods	48,101	31	41,212	28
Perfumes and Cosmetics	29,141	18	26,699	18
Watches and Jewelry	8,784	6	8,100	6
Selective Retailing	57,975	37	57,360	40
Other activities	4,707	3	4,719	3
TOTAL	**156,088**	**100**	**145,247**	**100**

(a) Total permanent and fixed-term headcount.

Breakdown by geographic region

Total headcount as of December 31 [a]	**2018**	**%**	**2017**	**%**
France	31,156	20	29,578	20
Europe (excluding France)	38,645	25	34,159	24
United States	32,724	21	32,717	23
Japan	6,905	4	6,397	4
Asia (excluding Japan)	34,802	22	31,102	21
Other markets	11,856	8	11,294	8
TOTAL	**156,088**	**100**	**145,247**	**100**

(a) Total permanent and fixed-term headcount.

Breakdown by professional category

Total headcount as of December 31 [(a)]	2018	%	2017	%
Executives and managers	29,288	19	26,631	18
Technicians and supervisors	14,500	9	14,009	10
Administrative and sales staff	91,624	59	86,742	60
Production workers	20,676	13	17,865	12
TOTAL	**156,088**	**100**	**145,247**	**100**

(a) Total permanent and fixed-term headcount.

1.3.2. Average age and breakdown by age

The average age of the global workforce employed under permanent contracts is 36 and the median age is 33. The youngest age ranges are found among sales staff, mainly in Asia, the United States and Other markets.

(as %)		Global workforce	France	Europe [(a)]	United States	Japan	Asia [(b)]	Other markets
Age:	Under 25	12.4	5.9	9.3	20.0	3.5	13.5	21.8
	25-29	20.2	16.1	16.1	22.3	12.4	26.8	22.8
	30-34	19.8	16.1	18.1	17.6	19.1	26.1	21.0
	35-39	14.9	14.1	15.8	12.0	21.0	16.0	14.8
	40-44	10.8	12.5	14.0	7.8	21.5	7.5	8.8
	45-49	8.5	12.1	11.5	6.5	13.1	4.3	5.1
	50-54	6.3	10.3	8.2	5.3	6.1	2.9	2.9
	55-59	4.3	8.1	4.9	4.2	3.1	1.6	1.9
	60 and up	2.7	4.9	2.2	4.3	0.2	1.2	1.0
		100	100	100	100	100	100	100
AVERAGE AGE		**36**	**40**	**38**	**35**	**38**	**33**	**33**

(a) Excluding France.
(b) Excluding Japan.

1.3.3. Average length of service and breakdown by length of service

The average length of service within the Group is 10 years in France and ranges from 4 to 8 years in other geographic regions. This difference is mainly due to the predominance in these other regions of retail activities characterized by a higher rate of turnover. It is also the result of recent expansion by Group companies into high-growth markets, where employment is more fluid.

(as %)	**Global workforce**	**France**	**Europe** [(a)]	**United States**	**Japan**	**Asia** [(b)]	**Other markets**
Length of service:							
Less than 5 years	60.1	42.6	52.2	72.1	45.7	70.5	77.0
5-9 years	18.1	19.1	20.4	15.9	19.2	18.1	13.6
10-14 years	10.1	13.1	13.8	7.1	18.1	6.4	5.3
15-19 years	5.7	10.9	7.4	2.9	10.7	2.1	2.2
20-24 years	2.6	4.8	3.5	0.9	3.6	1.4	0.9
25-29 years	1.6	4.0	1.4	0.5	1.9	0.9	0.4
30 years and up	1.8	5.5	1.4	0.5	0.7	0.7	0.6
	100.0	100.0	100.0	100.0	100.0	100.0	100.0
AVERAGE LENGTH OF SERVICE	7	10	7	5	8	5	4

(a) Excluding France.
(b) Excluding Japan.

2. An ambitious, inclusive recruitment policy

Recruitment is a strategic pillar of the Group's human resources policy and is critical to its momentum. Given the huge diversity of opportunities it offers, the Group is seen as a highly attractive employer, and is constantly working to improve its attractiveness by training promising individuals and ensuring that it models exemplary recruitment practices so as to welcome talented people without regard for gender, age, disability or any other characteristic not relevant to an advertised vacancy.

2.1. UNRIVALED OPPORTUNITIES OFFERING UNDENIABLE SUCCESS

To join the Group is to join a community of people who share the fundamental values of creativity, innovation, excellence and entrepreneurial spirit. As an internationally influential group that is constantly reinventing itself to meet new challenges, LVMH offers exciting career prospects: the wide range of Maisons and business lines that make up the Group offer employees a broad choice of career paths at every level of the organization.

Internal mobility is an integral part of the Group's culture, and its ecosystem provides many opportunities for crossover career paths between different functions, sectors and geographies. In 2018, 67% of senior executive positions and 56% of all vacant management positions were filled through internal promotion. This internal mobility is a key factor in the Group's ability to attract and retain talent: it means talented people have the opportunity to develop new skills, gain a wide range of experience and build up their professional networks.

Another driver of the Group's attractiveness is the fact that its compensation is well positioned relative to the market. Salary surveys that take into account the specific characteristics of business lines and sectors are carried out annually and at international level, to ensure that this strong positioning is maintained. Variable components of compensation – based on the financial performance of the employing company and achievement of individual targets – ensure that performance is fairly rewarded.

Average compensation

The table below shows the average monthly gross compensation paid to Group employees in France under full-time permanent contracts who were employed throughout the year:

Employees concerned *(as %)*	**2018**	**2017**
Less than 1,500 euros	1.5	1.6
1,501 to 2,250 euros	16.2	19.5
2,251 to 3,000 euros	22.8	21.5
Over 3,000 euros	59.5	57.4
TOTAL	**100.0**	**100.0**

Personnel costs

Worldwide personnel costs break down as follows:

(EUR millions)	**2018**	**2017**
Gross payroll – Fixed-term or permanent contracts	5,787.2	5,746.6
Employer social security contributions	1,490.9	1,412.6
Temporary staffing costs	306.0	287.6
TOTAL PERSONNEL COSTS	**7,584.2**	**7,446.9**

Outsourcing and temporary staffing costs increased year over year, accounting for 7.0% of the total worldwide payroll (versus 6.6% in 2017), including employer social security contributions.

Profit-sharing, incentive and company savings plans

All companies in France with at least 50 employees have a profit-sharing, incentive or company savings plan. These plans accounted for a total expense of 281.7 million euros in 2018, paid in respect of 2017, an increase compared to the previous year.

(EUR millions)	**2018**	**2017**
Profit sharing	131.4	118.2
Incentive	123.6	102.7
Employer's contribution to company savings plans	26.7	24.0
TOTAL	**281.7**	**244.9**

Buoyed by its unrivaled offering, the attractiveness of the Group and its Maisons was once again confirmed in 2018. For the third year running, LVMH was named France's most attractive employer in the LinkedIn Top Companies ranking; the Group also joined the dedicated US ranking for the first time. The Group also continues to be just as popular with business school students in France, who ranked it top among preferred employers for the thirteenth consecutive year (source: Universum poll).

Candidates are selected by an internal network of 800 recruiters, who are constantly working to maximize their effectiveness and market knowledge through the use of innovative recruitment tools. The Group works closely with LinkedIn and has rolled out a number of initiatives, such as developing prerecorded video interviews and digitizing résumés at recruitment fairs.

In 2018, 40,614 people were recruited onto permanent contracts, 4,946 of them in France. In addition, notably to handle seasonal peaks in sales during the end-of-year holiday season, 8,128 people were recruited onto fixed-term contracts in France.

In 2018, a total of 32,087 employees working under permanent contracts left the Group (all reasons combined); of these, 48% were employed within the Selective Retailing business group, which traditionally experiences a high turnover rate.

Turnover by geographic region

(as %)	2018	France	Europe [d]	United States	Japan	Asia [e]	Other markets	2017
Total turnover [a]	**22.9**	**13.4**	**17.0**	**34.3**	**11.0**	**26.5**	**33.4**	**22.7**
Of which:								
Voluntary turnover [b]	17.5	6.0	12.7	29.7	9.9	20.8	25.7	16.4
Involuntary turnover [c]	4.9	6.1	3.7	4.3	0.9	5.5	7.5	5.8

(a) All reasons, except internal mobility and non-Group transfers.
(b) Resignations.
(c) Dismissals/end of trial period.
(d) Excluding France.
(e) Excluding Japan.

Breakdown of movements [a] of employees working under permanent contracts by business group and geographic region

	Joiners		Leavers	
(number)	2018	2017	2018	2017
Wines and Spirits	855	854	708	724
Fashion and Leather Goods	11,915	8,509	7,610	6,884
Perfumes and Cosmetics	8,113	6,895	6,343	5,458
Watches and Jewelry	1,697	1,356	1124	1,187
Selective Retailing	17,176	14,782	15,458	14,566
Other activities	858	795	844	821
TOTAL	**40,614**	**33,191**	**32,087**	**29,640**
France	4,946	4,411	3,818	3,516
Europe (excluding France)	8,205	6,403	5,608	4,996
United States	10,261	7,922	9,348	8,837
Japan	1,027	881	682	641
Asia (excluding Japan)	12,266	9,630	8,929	8,378
Other markets	3,909	3,944	3,702	3,272
TOTAL	**40,614**	**33,191**	**32,087**	**29,640**

(a) Under permanent contracts, including conversions of fixed-term contracts to permanent contracts and excluding internal mobility within the Group.

2.2. NURTURING FUTURE TALENT

To ensure its long-term success, the Group is constantly seeking to attract and train those individuals who best match its current and future needs. LVMH runs a number of initiatives aimed at students and graduates, key examples being the Institut des Métiers d'Excellence (IME), the immersive "Inside LVMH" program and various international academic partnerships.

Institut des Métiers d'Excellence

In 2014, LVMH established the Institut des Métiers d'Excellence, a vocational training program that helps the Group ensure its expertise in craftsmanship, design and sales is successfully passed on to the younger generation.

This work-linked training program was designed in partnership with 15 prestigious schools and universities selected for their high academic standards and wide recognition of the qualifications they offer. Participants complete technical and theoretical coursework at these partner institutions and gain practical experience at the Group's Maisons through paid vocational training contracts. Through the program, participants receive foreign language training and have opportunities to meet craftspeople, experts and designers and visit workshops and stores.

Initially established in France, the IME expanded to Switzerland in 2016 and then to Italy in 2017. It currently offers 20 training programs, ranging from secondary-level CAP vocational certificates to master's degrees. In 2018, it achieved a success rate of 98% and a placement rate of 83%, with two-thirds of graduates placed with LVMH Maisons or the Group's external partners. Since it was founded, 500 young people have trained at the IME.

Inside LVMH

To help connect young talent developing in the academic sphere with the business world, in 2018 LVMH launched the "Inside LVMH" program, which offers nearly 5,000 students from 50 of the Group's partner schools and universities in Europe an immersive experience within the Group's five fields of expertise. Two hundred students divided into fifty teams were selected for their innovative ideas on "experiencing luxury in the future". The program's unique approach is based on cross-pollinating ideas between millennial-generation participants and Group senior executives. A total of over 350 students have been recruited through the program.

International academic partnerships

In 2018, LVMH continued to strengthen its historical links with recognized schools and universities such as ESSEC, HEC and Telecom ParisTech in France, Central Saint Martins in the United Kingdom, Bocconi University in Italy and Fudan University in China. The Group's partnerships with these institutions take a variety of forms, including research and teaching initiatives, scholarship funding and support for student projects.

In addition to the three major initiatives detailed above, the Group's policy on attracting talented young people is translated into hundreds of events at which the Group and its Maisons have the opportunity to reach out to students in person, offering internships, apprenticeships, international corporate volunteering opportunities and fixed-term or permanent positions. As a signatory of the Apprenticeship Charter, the Group has been a particularly strong supporter of apprenticeships as a route into employment. As of December 31, 2018, more than 1,400 young people were working under apprenticeship or vocational training contracts (including the Institut de Métiers d'Excellence) across the Group's French companies.

2.3. RECRUITING WITHOUT DISCRIMINATING

The Group is open to talented people of all kinds and is constantly working to prevent any form of discrimination in its recruitment practices.

Since 2011, the Group's recruiters have received specific training in preventing discrimination through a mandatory training session, the content of which was expanded and updated in 2018. Specific training sessions have also been rolled out across the Group's various locations to align with applicable national laws.

Furthermore, since 2008 the Group has put in place arrangements for ongoing independent oversight of its recruitment practices by appointing an independent firm to carry out discrimination testing on its posted job offers. Testing campaigns are run regularly and over long periods; since 2014, they have been worldwide in scope. Results are presented to Human Resources Directors at Group and Maison level, and appropriate action is taken if necessary.

LVMH is particularly keen to attract the best candidates regardless of disabilities. A number of initiatives are in place aimed at selecting and training people with disabilities and ensuring that they are optimally integrated into the workforce. The Group's approach in this area is coordinated by LVMH's *Mission Handicap* initiative, established in 2007 and supported by a network of 40 disability officers at the various Maisons.

LVMH has entered into a number of agreements with AGEFIPH, the leading French partner for the employment for people with disabilities (with the latest such agreement in 2014-2016). Certain Maisons have also entered into or renewed their own agreements with AGEFIPH, including Sephora (in 2017), Hennessy, Christian Dior Couture and Parfums Christian Dior.

Under the banner of this cooperation with AGEFIPH, in 2014 LVMH launched EXCELLhanCE, which enables people with disabilities to simultaneously obtain a degree, gain significant experience at the Group's Maisons and companies, and build up expertise specific to the world of luxury goods. This program is based on work-linked training lasting 12 to 24 months in three professional fields: sales, logistics and human resource management.

Candidates are selected using the *Handi-Talents* process, based on work-related simulation exercises, which help objectively identify each individual's aptitudes and skills. The third series of EXCELLhanCE sessions for potential employees began in fall 2018. In partnership with six Maisons, this has allowed twelve people with disabilities to enter employment on vocational training contracts, most of them retraining in a new profession, in the roles of sales advisor, inventory manager and human resources assistant. Around fifty people have benefited from the program since its launch.

Worldwide, people with disabilities make up 1% of the Group's workforce. In France, the Group's employment of people with disabilities was 4.4% (sum of direct and indirect employment rates) as of end-2018, based on official standards for the definition of disabilities. People with disabilities are recruited at every level of the Group, in all Maisons and all countries. By way of example, in Japan, Louis Vuitton works to promote employment for people with disabilities through partnerships with five specialized recruitment agencies. With 2.2% of its workforce made up of people with disabilities, the Maison ranks among the most active and effective Japanese companies in this area.

3. A fulfilling work environment

The Group seeks to create conditions under which all employees can flourish in their roles and achieve their full potential. Achieving this objective means offering high-quality career support to each and every employee, adopting best practice on health and safety, and fostering constructive labor relations.

3.1. CAREER GUIDANCE AND SUPPORT

LVMH offers its employees a range of training and support options throughout their careers, as well as initiatives aimed at reinforcing a shared culture of innovation, excellence and entrepreneurial thinking. Specific programs are in place to support newly appointed managers and to help talented women rise to key positions.

Integrating new employees

LVMH believes that a good understanding of corporate culture drives strong performance. The Group therefore places special emphasis on supporting new employees, offering induction seminars to introduce them to LVMH's values and fundamental management principles as well as the history and positioning of the various Maisons. In 2018, 39,276 employees under permanent or fixed-term contracts attended these types of seminars.

Helping employees be actively involved in their career mobility and professional development

The LVMH group encourages its staff to be actively involved in their career mobility and professional development. Working closely with human resources departments, managers play a proactive role in planning skills development and helping manage their team members' career paths.

Putting entrepreneurial spirit into practice

Innovation and entrepreneurial spirit are fundamental values in the Group's culture. To encourage staff to live out these values, in 2017 LVMH designed the DARE initiative (Disrupt, Act, Risk – to be an Entrepreneur), a collaborative global innovation program inspired by working methods used by startups.

Training managers

The Group has developed specific training programs for managers. These programs are supported worldwide by organizational structures and dedicated design and delivery teams. Programs are structured around four key focus areas: induction, leadership and management, excellence and open innovation. Over 5,000 people have participated in these programs.

Helping women rise to key positions

Gender equality is an integral part of the Group's corporate culture. In addition to traditional HR tools, the EllesVMH program, launched in 2007, aims to promote professional development for women through initiatives such as coaching and mentoring.

At the end of 2018, women accounted for 73% of permanent staff (38% in Wines and Spirits, 69% in Fashion and Leather Goods, 83% in Perfumes and Cosmetics, 59% in Watches and Jewelry, 83% in Selective Retailing, and 35% in Other activities). 65% of managers are women, and as of end-September 2018, 42% of key positions in the Group were held by women (compared with 23% in 2007) and 13 of the Group's companies were led by women.

LVMH has set itself a target of having women in 50% of the Group's key positions by 2020. To reach this goal, the Group runs an annual coaching program for its most promising female employees. In 2018, 33 women were selected to take part in such programs, bringing to 200 the number of high-potential female employees having benefited from this program since its launch in 2013.

On International Women's Day in March 2018, the Group held an event combining two internal initiatives: the DARE program, aimed at developing employee projects, and the EllesVMH program. The idea was to give the Group's "intrapreneurs" (internal entrepreneurs) an opportunity to brainstorm innovative solutions to improve gender equality in top management roles. Out of almost 750 applicants, sixty intrapreneurs were able to take part in the event. At the end of the event, three projects were selected to be taken into the development phase, with the winning teams receiving support and mentoring to help turn their ideas into reality.

Regarding compensation, initiatives and tools are put in place at numerous entities to reduce any salary gaps between women and men within the same job category. LVMH tracks the career development of its talented women through its annual organizational review, using a set of targets and key indicators.

Proportion of female employees among joiners [(a)] and in the Group's active workforce

	Joiners		Group workforce	
(% women)	**2018**	**2017**	**2018**	**2017**
Breakdown by business group				
Wines and Spirits	45	43	38	37
Fashion and Leather Goods	66	65	69	68
Perfumes and Cosmetics	86	85	83	83
Watches and Jewelry	58	60	59	59
Selective Retailing	83	83	83	83
Other activities	33	34	35	35
Breakdown by professional category				
Executives and managers	65	65	65	65
Technicians and supervisors	67	71	68	68
Administrative and sales staff	80	81	81	81
Production workers	57	47	58	55
Breakdown by geographic region				
France	63	62	64	64
Europe (excluding France)	76	75	74	73
United States	80	78	79	79
Japan	69	71	74	75
Asia (excluding Japan)	76	77	77	76
Other markets	79	81	73	73
TOTAL	**75**	**75**	**73**	**73**

(a) Under permanent contracts, including internal mobility and conversions of fixed-term contracts to permanent contracts.

Training investment

Overall, in 2018, training expenses incurred by Group companies throughout the world represented a total of 131.0 million euros, or 2.3% of total payroll. A substantial portion of training also takes place on the job on a daily basis and is not factored into the indicators presented below:

	2018	**2017**
Training investment *(EUR millions)*	131.0	121.5
Proportion of total payroll *(as %)*	2.3	2.1
Number of days of training per employee	2.0	2.0
Average cost of training per employee *(EUR)*	943.0	832.0
Employees trained during the year *(as %)*	58.9	56.6

Note: Indicators are calculated on the basis of the total number of employees under permanent contracts present at the workplace as of December 31, 2018.
Indicators are calculated on the basis of the total headcount (employees under both permanent and fixed-term contracts) present at the workplace during the fiscal year 2017, with the exception of the percentage of employees trained during the year, which is calculated on the basis of those employed under permanent contracts and present at the workplace as of December 31, 2017.

The average training investment per full-time equivalent employee was approximately 943 euros. In 2018, the total number of training days was 284,089, equivalent to around 1,235 people receiving full-time training for the entire year. In 2018, 58.9% of employees received training and the average number of days of training was 2 days per employee.

The training investment is spread across all professional categories and geographic regions as presented in the table below:

	France	Europe (a)	United States	Japan	Asia (b)	Other markets
Training investment *(EUR millions)*	38.2	22.8	26.6	5.3	30.7	7.1
Proportion of total payroll *(as %)*	2.6	1.7	2.1	1.8	2.7	2.3
Employees trained during the year *(as %)*	51.9	55.9	61.9	51.7	65.5	63.2
Of which:						
Executives and managers	58.7	71.7	57.4	58.0	64.3	58.7
Technicians and supervisors	63.4	65.7	44.9	53.2	66.4	58.3
Administrative and sales staff	49.2	58.6	65.4	49.9	66.5	65.1
Production workers	36.8	32.8	53.1	13.6	35.9	46.7

Note: Indicators are calculated for each fiscal year on the basis of the total number of employees under permanent contracts present at the workplace as of December 31 of that fiscal year.
(a) Excluding France.
(b) Excluding Japan.

3.2. PROMOTING WORKPLACE HEALTH AND SAFETY AND FOSTERING CONSTRUCTIVE LABOR RELATIONS

The Group is constantly working to offer all staff a high-quality working environment by ensuring their health and safety, adapting workspaces – particularly for older employees and those with disabilities – and fostering constructive labor relations.

Ensuring health and safety for all staff

The Group cares about the health and safety of its employees, makes sure that all its activities respect current health and safety laws and regulations in all the countries in which it operates, and pays particular attention to implementing best practice with regard to safety in the workplace.

Given the wide range of situations encountered within the different business groups, each of the Maisons is responsible for its own health and safety initiatives; actions aimed at ensuring appropriate workplace health and safety conditions and preventing accidents take a variety of forms under the banner of an overarching investment, certification and training program.

In 2018, the Group invested over 32.1 million euros in health and safety. This includes costs related to occupational health, protective equipment, and health and safety improvement programs covering compliance for new equipment, signage, replacement of protective equipment, fire prevention training and noise reduction. More generally, the total amount spent on and invested in improving working conditions came to more than 64.8 million euros, or 1.1% of the Group's gross payroll worldwide.

Initiatives for awareness-raising and training in workplace safety and risk prevention are expanding. In 2018, 47,840 employees received training in these areas at the Group's companies worldwide.

Health, safety and ergonomics assessments are regularly conducted at production sites, workshops and vineyards as well as stores and headquarters. These assessments are followed up with structured action plans to meet the needs identified.

Arrangements are made to improve workspace ergonomics, and workspaces are redesigned to meet employees' needs. The Group is particularly attentive to working conditions for staff members over 50 and those with disabilities, aiming to enable them to continue working under optimal conditions.

Special attention is paid to the positions most exposed to physical or mental stress in workshops and at production facilities.

As retirement approaches, the Maisons offer end-of-career interviews, dedicated training, special working arrangements or even specific healthcare and retirement support arrangements.

For employees with disabilities, the Maisons offer solutions on a case-by-case basis to help people keep their jobs, such as making adjustments to their workspaces or helping them transition to a different role. In March 2011, to help employees make this transition, Moët & Chandon founded MHEA, a company that offers facilities adapted to employees with disabilities. MHEA maintains a workforce made up entirely of people with disabilities and provides optimum working conditions for employees affected by disabilities, without any change in their compensation conditions. Since it was founded, MHEA has enabled fifty people to work under fixed-term or permanent contracts and around ten of them to join one of the Group's champagne houses under permanent contracts.

Work accidents resulting in leave of absence by business group and geographic region broke down as follows:

	Number of accidents	Frequency rate (a)(b)	Severity rate (b)(c)
Breakdown by business group			
Wines and Spirits	108	8.54	0.24
Fashion and Leather Goods	317	4.04	0.11
Perfumes and Cosmetics	203	4.33	0.13
Watches and Jewelry	37	2.37	0.02
Selective Retailing	655	6.89	0.20
Other activities	96	14.94	0.75
Breakdown by geographic region			
France	738	16.44	0.52
Europe (excluding France)	241	3.95	0.06
United States	189	3.81	0.22
Japan	16	1.36	0.00
Asia (excluding Japan)	151	2.27	0.04
Other markets	81	3.83	0.08
Group: 2018	1,416	5.55	0.16
2017	1,232	5.16	0.16

(a) The frequency rate is equal to the number of accidents resulting in leave of absence, multiplied by 1,000,000 and divided by the total number of hours worked.
(b) The calculation of hours worked is based on actual data for France; for other countries, it is based on the number of full-time equivalent (FTE) employees present within the Group as of December 31 of the fiscal year and a ratio of hours worked per FTE employee per country taken from OECD knowledge bases.
(c) The severity rate is equal to the number of workdays lost, multiplied by 1,000 and divided by the total number of hours worked.

The Group's worldwide absence rate for employees working under permanent and fixed-term contracts was 4.9%. This represents a year-on-year decrease (5.0%).

Absence rate [a] by region and by reason

(as %)	Global workforce	France	Europe [b]	United States	Japan	Asia [c]	Other markets
Illness	2.4	4.1	3.5	1.4	0.4	1.5	1.7
Work/commuting accidents	0.1	0.4	0.1	0.1	0.0	0.0	0.1
Maternity leave	1.5	1.3	2.9	0.6	1.2	1.2	1.2
Paid leave (personal leave)	0.3	0.3	0.4	0.2	0.2	0.4	0.4
Unpaid leave	0.4	0.9	0.3	0.4	0.2	0.4	0.2
OVERALL ABSENCE RATE	**4.9**	**7.0**	**7.2**	**2.8**	**2.0**	**3.5**	**3.5**

(a) Number of days' absence divided by theoretical number of days worked.
(b) Excluding France.
(c) Excluding Japan.

Fostering constructive labor relations

Employee representatives also play an important part in enabling the Group's employees to flourish, by passing on their colleagues' needs and expectations at various levels of the organization. A Group Works Council was formed at LVMH in 1985. This employee representative body – which currently has thirty members, whose appointments were renewed in 2018 – covers personnel based in France and holds one plenary meeting each year. Delegates meet with the Presidents of all of LVMH's business areas to receive and exchange information on strategic direction, business and financial issues, employment trends within the Group and future prospects.

At the European level, the SE Works Council is an employee representative body comprised of 28 members from the 22 European countries where the Group has operations. The rules for this representative body are laid down in an agreement that was unanimously approved on July 7, 2014 by employee representatives from these 22 countries and by the Group's Executive Management. In 2018, the SE Works Council held a plenary session on April 25.

The SE Works Council handles transnational issues at the European level. Alongside the LVMH-level Group Works Council, this body supplements the employee representation system made up of the Maisons' works councils which, in keeping with the Group's culture of decentralization, handle most employee-related issues.

In France, Group companies have one or more of the following, depending on their workforce: an employee representative body ("Comité Social et Économique", or CSE), a works council, a combined staff representative body ("Délégation unique du personnel", or DUP), employee representatives, and health and safety committees. The Group's Maisons are progressively incorporating a CSE, pursuant to the Orders of September 22, 2017. This employee representative body – which must be in place by December 31, 2019 at the latest – combines employee representatives, the works council and the health and safety committee, or replaces the DUP where such a body was in place.

In 2018, employee representatives attended 1,809 meetings:

Type of meeting	Number
Works council	626
Employee representatives	559
Health and safety committee	374
Other	250
TOTAL	**1,809**

As a result of these meetings, 107 company-wide agreements were signed.

Worldwide, 13% of employees benefit from variable or adjusted working hours and 50% work as a team or alternate their working hours.

Global workforce affected by various forms of working time adjustments: Breakdown by geographic region

Employees concerned [a] *(as %)*	Global workforce	France	Europe [b]	United States	Japan	Asia [c]	Other markets
Variable/adjusted schedules	13	29	16	1	18	4	4
Part-time	18	13	19	38	4	5	22
Shift work or alternating hours	50	13	35	79	78	69	58

(a) Percentages are calculated on the basis of total headcount (employees under both permanent and fixed-term contracts) in France. For the other regions, they are calculated in relation to the number of employees under permanent contracts, except for part-time workers, for whom percentages are calculated with respect to the total headcount.
(b) Excluding France.
(c) Excluding Japan.

Workforce in France affected by various forms of working time adjustment: Breakdown by professional category

Employees concerned [a] *(as %)*	Workforce in France	Executives and managers	Technicians and supervisors	Admi-nistrative and sales staff	Production workers
Variable/adjusted schedules	29	18	52	56	3
Part-time	13	2	6	19	25
Shift work or alternating hours	13	0	10	5	38
Employees benefiting from time off in lieu	10	2	17	16	8

(a) Percentages are calculated in relation to the total number of employees under permanent and fixed-term contracts.

The total cost of overtime was 106 million euros, averaging 1.8% of the worldwide payroll.

Overtime by region

(as % of total payroll)	Global workforce	France	Europe [a]	United States	Japan	Asia [b]	Other markets
Overtime	1.8	1.6	2.0	1.6	4.2	1.8	0.8

(a) Excluding France.
(b) Excluding Japan.

Work-life balance is another essential part of quality of life at work, and a focus area for the Group's Maisons. Workplace concierge services and childcare are becoming more and more widespread within the Group.

In 2018, Group companies allocated a budget totaling over 24.7 million euros (1.7% of total payroll) to social and cultural activities in France via contributions to works councils.

Management Report of the Board of Directors – Financière Agache group

7. CORPORATE PHILANTHROPY

The Group's policy with regard to corporate social responsibility is based on two guiding principles: respect for each individual's unique identity, and a commitment to use excellence as a driver of social inclusion and employment.

This policy is spearheaded by LVMH and its Maisons, which comprise all the Group's operating activities, and which mobilize resources and skills to support community-oriented initiatives that help give back to the regions where they are located, with the aim of amplifying the positive social impact of their activities.

The Group pursues a wide range of initiatives to support education, young people, culture and the arts, with the Group's approach also reflecting its attachment to historical and artistic heritage, as well as its involvement in major social and humanitarian causes. With regard to education and young people, the Group's initiatives include democratizing access to the richness of the world's cultural heritage and encouraging the emergence of future talent. These commitments are pursued over the long term and are reflected in real-world contributions to society. Maisons pursue their own commitments according to their specific priorities and operating environments, while the Group coordinates and provides overall leadership.

The Group's innovative corporate giving program aims to benefit a wide audience through a range of initiatives that reflect and transmit the cultural values that unite the Maisons, upon which they have built their success.

1. Local involvement and social impact

The Group puts its values to work in society, not only to ensure the successful integration of its Maisons and their activities at the local and national levels, but also to create positive grassroots outcomes where it operates.

1.1. SUPPORTING JOB CREATION, ENTREPRENEURSHIP AND REGIONAL DEVELOPMENT

The Group helps drive economic growth and social development in the regions where it operates, both directly at its own sites and indirectly at its partners' locations, through its initiatives and contributions to public revenue in the countries and regions where it carries out its activities, and as a result of the steady growth achieved by its Maisons. These companies create many jobs in the regions where they operate, particularly as a result of the expansion of the network of directly operated stores.

A number of Maisons have been established for many years in specific regions of France and play a major role in creating jobs in their respective regions: Parfums Christian Dior in Saint-Jean-de-Braye (near Orléans), Guerlain in Chartres, Veuve Clicquot and Moët & Chandon in the Champagne region, Hennessy in the Cognac region and Louis Vuitton in the Drôme region. They have developed long-standing relationships with local government, covering cultural and educational aspects as well as employment. Sephora – which has stores throughout France (two-thirds of its workforce is employed outside the Paris region) – regularly carries out a range of measures promoting local job opportunities.

The Group is a long-standing supporter of entrepreneurship. In early 2018, to help connect open innovation and business development with new ways of learning, LVMH launched “La Maison des Startups”, a startup accelerator for the luxury industry, housed within the world's biggest startup incubator, Station F. For participating entrepreneurs, La Maison des Startups can be a stepping stone to the Group's Maisons. It reaffirms the Group's entrepreneurial spirit by giving these entrepreneurs the opportunity to think about the future of luxury and the Group, together with colleagues from a range of different backgrounds, within an innovative ecosystem.

1.2. FACILITATING ACCESS TO EMPLOYMENT AND SOCIAL INCLUSION FOR PEOPLE WHO HAVE BEEN MARGINALIZED ON THE JOB MARKET

As major employers in many labor markets, the Group and its Maisons pay close attention to each region's specific employment situation, and have forged partnerships with nonprofits and NGOs to promote social inclusion and employment for people who have been marginalized on the job market.

In France, the Group is a long-term partner and board member of nonprofit Nos Quartiers ont des Talents, which offers young graduates from underprivileged backgrounds the chance to be mentored by an executive or manager working at the Group. In 2018, 78 experienced managers participated as mentors, 50 of whom were still participating at the end of 2018. Since 2007, 569 young people have found jobs after being mentored by a Group employee. LVMH also took part in the *Talents Hub* event run by the nonprofit on October 18, 2018, which gave over 3,300 young people an opportunity to receive advice and guidance on finding work.

To speed up access to employment, LVMH runs "Jobstyle" job coaching sessions led by recruiters from the Group's Maisons and beauty consultants from Make Up For Ever and Sephora. The goal is to give applicants the support they need to fully prepare for a job interview and develop their self-confidence. The program is aimed at people who have been marginalized on the job market, backed by the Group's partners in the fields of education, disability and integration. In 2018, ten sessions were held with over 300 participants backed by LVMH's partners (including Force Femmes and Nos Quartiers ont des Talents).

1.3. FACILITATING EMPLOYMENT FOR PEOPLE WITH DISABILITIES

Supporting access to employment for people with disabilities has been at the heart of the Group's corporate social responsibility policy for many years. It is a top priority and an apt reflection of the Group's values: respect for each person as an individual and the same attitude expected of everyone working for the Group.

LVMH works with organizations that support young people with disabilities in training programs, along with others that foster employment and social inclusion. The Group is a co-founder of ARPEJEH, a nonprofit organization that brings together some sixty French companies to offer support and guidance to students with disabilities in secondary and post-secondary education. Employees lend their support to this initiative and 37 young people benefited from LVMH's involvement in 2018.

In Italy, the Group's Maisons joined forces in a partnership with nonprofits AIPD (Associazione Italiana Persone Down) and AGPD (Associazione Genitori e Persone con Sindrome di Down). This partnership involves coordinating the Group's 13 Maisons established or active in Italy to support social inclusion and employment for people with Down syndrome. The partnership includes two distinct components: a donation to the nonprofits, enabling them to launch traineeships and training for mentors and young people with disabilities; and the "Assumiamoli" ("Let's employ them") campaign to raise awareness among all Group employees in Italy of the hiring potential of people with disabilities. It is combined with a call for volunteers issued to the same population of employees to welcome and support candidates. To optimize this campaign, the "TueNoi" ("You and us") Intranet site was set up. So far, nearly 200 employees have signed up.

The Group also encourages its Maisons to develop their relationships with companies specifically employing people with temporary or permanent severe disabilities, and provide them with special facilities and support (known as the "secteur protégé et adapté" in French). Services entrusted to companies specifically employing people with disabilities totaled 8.3 million euros in 2018, up 17% relative to 2017 and representing 415 full-time equivalent jobs. To raise its profile in this area, the Group organizes the Disability, Employment and Responsible Purchasing trade fair, which is open to the general public. The third Disability, Employment and Responsible Purchasing trade fair confirmed the event's success, drawing 3,500 visitors.

2. Supporting humanitarian and social causes

The Group encourages its Maisons to support the causes it feels are most important, in particular ensuring access to education for young people and helping the most vulnerable communities.

2.1. HELPING YOUNG PEOPLE ACCESS EDUCATION

The same focus on excellence that has enabled the Maisons to succeed drives our efforts to provide educational opportunities for young people. Following the Group's lead, the Maisons have developed numerous partnerships with schools located near their sites or further away.

To promote equal opportunity in access to world-class higher education, LVMH supports the priority education program run by the Institut d'Études Politiques (Sciences Po Paris), by offering grants to students and giving young Sciences Po graduates the chance to be mentored by Group managers. In 2018, LVMH renewed its commitment – under which it will provide financial support and mentoring by Group managers for around ten students – for three years.

LVMH has developed a partnership with Clichy-sous-Bois and Montfermeil, two adjacent suburbs of Paris with young, diverse populations. Driven by a shared commitment to excellence, this partnership helps facilitate employment for young people from underprivileged neighborhoods and social inclusion. Young people benefit from a wide range of initiatives, including business discovery internships for nearly 100 middle school students in 2018, visits to the Group's Maisons, internships for vocational school students and career orientation.

On January 16, the national work-linked training fair showcasing the positions on offer at the Institut des Métiers d'Excellence was held once again, attended by nearly 500 people. The Group also supports the "Cultures et Création" fashion show, which showcases the region's creative talent. It provides early training for young people through masterclasses and organizes events where they can meet designers and craftspeople. At the fashion show, the Group awards the Young Talent Prize to one young but underprivileged fashion design enthusiast, helping winners gain wider recognition within the profession. The 2018 winner, Anne-Solène Rives, got to exhibit her designs at Greenshowroom, a trade fair dedicated to environmentally responsible fashion held in Berlin from July 3 to 5, and then joined Loewe through a work-linked training program, while the previous year's winner trained at Kenzo. Since the program was launched, a number of young people have had the opportunity to join the Group's Maisons under a long-term work-linked training program at Paris's couture union school. In 2016, the 2013 winner was hired at Christian Dior's haute couture workshop.

2.2. HELPING THOSE IN NEED

The Group and its Maisons are committed to helping disadvantaged communities in the regions where they operate. Their support may take the form of employee volunteering in these communities, product donations, or financial assistance, and has led to the launch of major new initiatives.

The Group has continued to support many institutions – in France and worldwide – recognized for their initiatives in support of children, senior citizens and people with disabilities, and for their work to prevent major causes of suffering and exclusion. In particular, LVMH has supported the Fondation des Hôpitaux de Paris-Hôpitaux de France and the Association Le Pont Neuf in France, Save the Children Japan, and the Robin Hood Foundation in New York in their initiatives for children, as well as the Fondation Claude Pompidou, which provides support in France for seniors and people with disabilities, and Association Fraternité Universelle, which works in Haiti to improve access to health care and education alongside actions in favor of agricultural development, especially in the Central Plateau. The Group is also a long-standing supporter of a number of scientific teams and foundations engaged in cutting-edge public health research.

In January 2016, Louis Vuitton launched an international partnership with the United Nations International Children's Emergency Fund (UNICEF). By the end of 2018, more than 6 million euros had been raised since it was launched, with funds going to support children in emergencies, notably at Syrian refugee camps in Lebanon and Rohingya refugee camps in Bangladesh. A payroll deduction system for making micro-donations to UNICEF was set up in France, in 2018, giving all employees an opportunity to get involved every month. This year, five employees also visited refugee camps in Bangladesh to see how the funds were being used. In 2017, Make a Promise Day was held in stores to raise awareness among customers and involve them in this initiative. Several products have been developed to promote this program since it was launched: *Silver Lockit*, *Silver Lockit Color* and *Fluo*, and *Silver Lockit* by Sophie Turner. All profits from sales of these products are paid in full to UNICEF.

In 2018, Sephora expanded its Sephora Stands initiative developed in the Americas to include Europe, the Middle East and Asia. Sephora launched this initiative to support programs that have a social and environmental impact; it is now focused on three main areas:

- Sephora has built relationships with over 500 local NGOs, selected for their efforts toward promoting fair treatment and inclusion. Sephora's commitment to these organizations includes employee volunteer work, but the company also encourages customer generosity by matching donations connected to product launches, the profits of which are paid out to these numerous nonprofit organizations. In 2018, more than one million euros were raised by Sephora to fund partnerships with nonprofits, through initiatives such as micro-donations in France, which helped raise 400,000 euros for Toutes à l'école and Women Safe; the Gift & Match Program in the United States, which raised 500,000 euros; and Operation Smile in China. Employees contributed over 3,000 hours of volunteer work toward charitable initiatives.
- Even in the beauty industry, women entrepreneurs are under-represented. In 2016, Sephora launched "Sephora Accelerate" to support women who have started their own businesses in all areas of the beauty industry and in different countries around the world. Every year on International Women's Day, Sephora pursues initiatives to help women advance in their professional careers. In 2018, ten finalists from six countries participated in a mentoring program with Sephora's top experts and a week of coaching in San Francisco, where they met potential investors. The program's objective is to support 50 projects by 2020.
- Through Classes for Confidence, Sephora offers both beauty classes and coaching to help people facing major life transitions show themselves in the best light and regain self-confidence. In 2018, over 700 classes were held in the United States for cancer survivors, people who have been marginalized on the job market and members of the transgender community. Classes were also launched in six countries across Europe (France, Russia, Spain, Italy, Greece and Portugal). Overall, since its launch, and thanks to new materials available online, the program has already reached over 40,000 people.

In 2009, Bvlgari decided to get involved with Save the Children, and has so far donated over 80 million dollars, helping 1.2 million children. More than 700,000 customers have bought the Maison's *Save the Children* jewelry, and over 100 projects have been launched in 33 countries around the world. The partnership is supported by 275 celebrities. Bvlgari also involves its employees, with more than 270 having visited Save the Children projects on the ground.

All of these partnerships and charitable initiatives are celebrated at the Engaged Maisons Dinner. This event – which has been held every year since 2013, and is organized by Chantal Gaemperle, LVMH's Director of Human Resources and Synergies, and attended by Antonio Belloni, LVMH's Group Managing Director – is an opportunity for the Maisons to come together and celebrate the Group's commitment to its people and society. Led by Human Resources, the event brings together stakeholders who play an active role in LVMH's social responsibility, internal champions and external partners of the Maisons and the Group as a whole. On December 5, 2018, the dinner was held at the Palais Brongniart and attended by nearly 400 people, including six Executive Committee members and 17 Maison Presidents, as well as numerous partners, opinion leaders, and heads of NGOs and other nonprofit organizations.

This occasion also raises funds for the Robert Debré Hospital in Paris, the leading center for sickle cell anemia, to which LVMH has donated 800,000 euros since 2011 to improve patient care and fund research. LVMH also provides financial support to causes that are close to its heart:

- Kelina, which works to provide care for mothers and children in Benin. The funds raised have gone toward building a maternity hospital in northwestern Benin, in a region with limited medical facilities; a total of more than 100,000 euros has been donated since 2015;
- K d'Urgences, which provides human, social and financial support for single-parent families in France. A total of 80,000 euros has been donated since 2014. On Wednesday, June 6, 2018, the Jardin d'Acclimatation welcomed 5,500 single parents and children with the support of LVMH staff, in partnership with other organizations and businesses. The day provided an opportunity for them to directly access all the employment-related, legal and social services often needed by single-parent families.

3. Corporate philanthropy to support culture and the arts

For more than twenty years, the Group's groundbreaking corporate philanthropy has expressed the artistic and humanitarian values shared by all its Maisons, while respecting each one's specific communications approach and image.

3.1. CULTURE, HERITAGE AND CONTEMPORARY CREATIVE ARTS

In 2018, LVMH developed and pursued a wide range of initiatives, aimed at benefiting the widest possible audience and focused on several key areas: expanding cultural access and knowledge, restoring and enriching our historical heritage, and supporting contemporary creative arts.

3.1.1. Commitments to culture and expanding access to it

Since 1991, support for more than 50 national and international exhibitions has allowed millions of visitors to relive and learn about the most pivotal moments of the history of art by discovering monumental artists that changed how we see the world: Matisse, Picasso, Van Gogh, Klein, Poussin, Cézanne and Giacometti – but also contemporary artists such as Richard Serra, Annette Messager, Anish Kapoor, Olafur Eliasson and Christian Boltanski.

In 2018, LVMH provided support for the opening of the Giacometti Institute in the spring, and in the fall the "Cubism" exhibition at the Centre Pompidou, an expansive panorama of one of the founding movements in the history of modern art (1907-1917). At the end of the year, the Group also supported the *Georges Henri Rivière* exhibition at the Mucem in Marseille.

Also during the year, LVMH renewed its support for the French charity Secours Populaire's *recto/verso* campaign, which returned for its second edition: 100 French and international artists each offered a work to be auctioned on behalf of the charity. These 100 works were exhibited at the Fondation Louis Vuitton from June 15 to 24, 2018, with the auction held on the last day of the event. The total amount raised on this occasion – 305,000 euros – will be used to fund Secours Populaire's initiatives to promote access to art and culture for disadvantaged populations, with nearly 1,000 underprivileged individuals also benefiting from special admission arrangements at the Fondation Louis Vuitton for the duration of the campaign.

3.1.2. Restoring and enriching historical heritage

LVMH's partnership with the Palace of Versailles is a prime example of its commitment to protect and enrich cultural and artistic heritage, from its support for the restoration of the African, Crimean and Italian rooms and the "Les Tables Royales en Europe" exhibition in 1992-93 through to the acquisition in 2011 of the Riesener desk made for Marie-Antoinette, followed in 2013 by three Sèvres porcelain vases that once belonged to Louis XV's daughter, Madame Victoire. In 2018, LVMH supported the restoration and reopening of the Queen's Hamlet, thanks to Dior's philanthropy, followed by the acquisition of yet another national treasure: the silver ewer given to Louis XIV by the embassy of Siam in 1685.

Also in 2018, thanks to LVMH's support – amounting to nearly 8 million euros – the "Become a Patron!" fundraising campaign organized by the Louvre achieved its goal of acquiring and returning to France the Book of Hours of King François I, a masterpiece of French Renaissance jewelry, metalwork and illumination, and the only surviving work from the reign of one of the greatest figures in French history. The acquisition of this national treasure marks more than 20 years of friendship and trust between the Louvre and LVMH since its donation to acquire David's *Portrait of Juliette de Villeneuve* in 1998.

3.1.3. The Fondation Louis Vuitton and contemporary creative arts

The creation of the Fondation Louis Vuitton (see footnote) in 2006, marked a new stage in the corporate philanthropy of the Group and its Maisons. It was the culmination of more than 25 years of initiatives to support the arts, culture, heritage and design, as well as the artists themselves. Driven by a desire to serve the public interest, the Fondation Louis Vuitton is dually committed to promoting modern and contemporary art, as well as making this art more accessible to all. The Fondation Louis Vuitton enriches Paris' cultural heritage with an iconic monument of 21st century architecture, built on public land under a 55-year occupancy agreement with the City of Paris.

The first highlight of 2018 was the year's 1.2 million visitors to the Fondation. From October 2017 to March 2018, the "Being Modern: MoMA in Paris" exhibition hosted, for the first time in France, an exceptional selection of 200 works brought to Paris from New York to recount the history of the Museum of Modern Art and its vocation as a collector. In the spring, the "In Tune with the World" exhibition featured a selection of modern and contemporary works by nearly 30 artists including Alberto Giacometti, Henri Matisse, Gerhard Richter, Pierre Huyghe, Yves Klein and Takashi Murakami. Lastly, with the simultaneous opening in October 2018 of two separate landmark exhibitions, "Egon Schiele" and "Jean-Michel Basquiat", the Fondation Louis Vuitton presented two artists linked by their fascinating intensity and brief, meteoric lives, through a selection of some 250 paintings and drawings from their extraordinary bodies of work.

LVMH continued to support creative work by contemporary artists in 2018. LVMH has been a loyal patron of the Nuit Blanche night-time arts festival for more than 11 years, and once again provided support alongside the City of Paris this year to the French and international arts scene, giving center stage to contemporary artists at an event open to all in the heart of Paris.

3.1.4. LVMH Prize for Young Fashion Designers

LVMH always strives to support emerging talent, and in 2018, for the fifth year in a row, it awarded the LVMH Prize for Young Fashion Designers, which each year honors the work of a talented stylist, selected by a jury made up of the creative directors of the Group's Maisons.

With 1,300 candidates from more than 90 different countries, the LVMH Prize saw record participation levels in 2018. The nine finalists presented their designs at a ceremony held at the Fondation Louis Vuitton on June 6. At the close of this exceptional day, Tokyo-based Japanese designer Masayuki Ino was awarded the Grand Prize, presented by actress Emma Stone and multidisciplinary young artist Jaden Smith, together with a 300,000 euro grant and a year of mentoring with a dedicated team. The panel of judges also awarded a special prize to Rok Hwang for Rokh. He will receive 150,000 euros and a year of mentoring by LVMH.

3.2. INITIATIVES FOR YOUNG PEOPLE

In the field of music, LVMH's support has enabled more than 40,000 students at Paris conservatories to attend the city's finest concerts, for over 20 years, through its "1000 Places pour les Jeunes" initiative. Young virtuosos can also attend master classes with Seiji Ozawa thanks to the Group's support for the Seiji Ozawa International Academy Switzerland, while the loan of two violins and a cello from LVMH's Stradivarius collection has allowed musicians such as Maxim Vengerov, Laurent Korcia, Kirill Troussov and Tatjana Vassiljeva to express the full range of their talent on the international stage.

In 2018, LVMH renewed its support for Orchestre à l'École – a nonprofit that gives the chance to nearly 200 children all over France to learn a musical instrument as part of a special educational program – and took part in the Opéra Comique's cultural outreach initiative by offering 500 free tickets to young people for performances during the 2018/2019 season.

Fondation Louis Vuitton

The Fondation Louis Vuitton is a "fondation d'entreprise" (corporate foundation) established by prefectural order published in France's Journal Officiel (official gazette) on November 18, 2006, and governed by French Law No. 87-571 of July 23, 1987 on the development of corporate philanthropy. The Fondation is a nonprofit organization that pursues a diverse range of initiatives aimed at promoting artistic and cultural activities in France and abroad, as well as expanding access to works of art; these initiatives include exhibitions, educational activities for schools and universities, seminars and conferences.

The members of the Fondation are the Group's main French companies. The Fondation is overseen by a Board of Directors, one-third of whose members are non-Group individuals chosen for their expertise in its fields of activity, and the other two-thirds of which are company officers and employees of the Group's Maisons. It is funded in part by contributions from Fondation members as part of multi-year programs, as required by law, as well as external financing guaranteed by LVMH.

It is subject to verification by a Statutory Auditor, which carries out its assignment under the same conditions as those that apply to commercial companies, and to the general supervisory authority of the Prefect of Paris and the Paris region.

Management Report of the Board of Directors – Financière Agache group

8. FINANCIAL AND OPERATIONAL RISK MANAGEMENT AND INTERNAL CONTROL

1. Strategic, operational and financial risks

The Financière Agache group's activities are exposed to various risks, which are regularly identified and managed, taking into account developments including changes to regulations.

1.1. STRATEGIC AND OPERATIONAL RISKS FOR THE GROUP

Operational risks are mainly present – and therefore managed – at LVMH and its subsidiaries. The French Law of March 27, 2017 concerning the duty of care, which applies to the LVMH level, has resulted in improved identification of risks and helps to prevent serious abuses of human rights and fundamental liberties, health and safety of persons, and the environment.

1.1.1. Group image and reputation

Around the world, the Group is known for its brands, unrivaled expertise and production methods unique to its products. The reputation of the Group's brands rests on the quality and exclusiveness of its products, their distribution networks, and the promotional and marketing strategies applied. Products or marketing strategies not in line with brand image objectives; inappropriate behavior by brand ambassadors, the Group's employees, distributors or suppliers; or detrimental information circulating in the media might endanger the reputation of the Group's brands and adversely impact sales. The net value of brands, trade names and goodwill recorded in the Financière Agache group's balance sheet as of December 31, 2018 amounted to 27 billion euros.

The Group maintains an extremely high level of vigilance with respect to any inappropriate use by third parties of its brand names, in both the physical and digital worlds. In particular, this vigilance involves the systematic registration of brands and main product names, whether in France or in other countries; communications to limit the risk of confusion between the Group's brands and others with similar names; and constant monitoring, which may prompt legal action by the Group, if required. Initiatives pursued by the Group aim to promote a legal framework suited to the digital world, prescribing the responsibilities of all those involved and instilling a duty of care with regard to unlawful acts online to be shared by all actors at every link in the digital value chain.

In its Wines and Spirits and Perfumes and Cosmetics business groups – and to a lesser extent in Watches and Jewelry, and Fashion and Leather Goods – the Group sells a portion of its products to distributors outside the Group, which are thus responsible for sales to end customers. The reputation of the Group's products thus rests in part on compliance by all distributors with the Group's requirements in terms of their approach to the handling and presentation of products, marketing and communications policies, and respecting brand image. In order to discourage inappropriate practices, distribution agreements include strict guidelines on these matters, which are also monitored on a regular basis by the Maisons.

Furthermore, the Group supports and develops the reputations of its brands by working with seasoned and innovative professionals in various fields (creative directors, oenologists, cosmetics research specialists, etc.), with the involvement of the most senior executives in strategic decision-making processes (collections, distribution and communication). In this regard, the Group's key priority is to respect and bring to the fore each brand's unique personality. Employees at all levels of the Group are made aware of the importance of following the ethical guidelines communicated within the Group. Lastly, to protect itself from the risk of a public campaign against the Group or one of its brands, the Group continuously monitors developments in the media and maintains a permanent crisis management unit.

1.1.2. Counterfeit and parallel retail networks

The Group's brands, expertise and production methods can be counterfeited or copied. Its products – leather goods, perfumes and cosmetics in particular – may be distributed through parallel retail networks, including online sales networks, without the Group's consent. As part of a joint effort aimed at developing new solutions to get consumers more engaged in their digital experience, while also preserving brand value and promoting creativity, the Group and several major Internet companies (pure plays) have announced that they are working together to protect the Group's intellectual property rights and combat the online advertising and sale of counterfeit products.

Counterfeiting and parallel distribution have an immediate adverse effect on revenue and profit. Activities in these illegitimate channels may damage the brand image of the relevant products over time and may also lower consumer confidence. The Group therefore does all it can to protect its assets and resources, particularly its intellectual property rights. The Maisons pursue an anti-counterfeiting strategy based on prevention, cooperation and communication.

Action plans have been specifically drawn up to address the counterfeiting of products, in addition to the systematic protection of brand and main product names discussed above. This involves close cooperation with governmental authorities, customs officials and lawyers specializing in these matters in the countries concerned, as well as with market participants in the digital world, whom the Group also ensures are made aware of the adverse consequences of counterfeiting. The Group also plays a key role in all of the trade bodies representing the major names in the luxury goods industry, in order to promote cooperation and a consistent global message, all of which are essential in successfully combating the problem. In addition, the Group takes various measures to fight the sale of its products through parallel retail networks, in particular by developing product traceability, prohibiting direct sales to those networks, and taking specific initiatives aimed at better controlling retail channels.

Beyond the borders of the European Union, the Group is not subject to any legal constraints that might impede the full exercise of its selective retail distribution policy, or limit its ability to bring proceedings against any third parties distributing Group products without proper approval. In the European Union, Competition Law guarantees strictly equal treatment of all economic operators, particularly in terms of distribution, potentially posing an obstacle to companies refusing to distribute their products outside a network of authorized distributors. However, Commission Regulation (EC) No. 2790/1999 (known as the 1999 Block Exemption Regulation), by authorizing selective retail distribution systems, established an exemption to this fundamental principle, under which the Group operates, thus providing greater protection for Group customers. This exemption was confirmed in April 2010, with the renewal of the 1999 Block Exemption Regulation and the extension of its application to online sales. This legal protection gives the Group more resources in the fight against counterfeit goods and the parallel distribution of its products, a battle waged as much in the digital as in the physical world.

In 2018, anti-counterfeiting measures generated internal and external costs for the Group of around 40 million euros.

1.1.3. Contractual constraints

In the context of its business activities, the Group enters into multi-year agreements with its partners and some of its suppliers (especially lease, concession, distribution and procurement agreements). Should any of these agreements be terminated before its expiration date, compensation is usually provided for under the agreement in question, which would represent an expense without any immediate offsetting income item. As of December 31, 2018, the total amount of minimum commitments undertaken by the Group in respect of multi-year lease, concession, and procurement agreements amounted to 14.8 billion euros. Detailed descriptions of these commitments may be found in Notes 30.1 and 30.2 to the consolidated financial statements.

Any potential agreement that would result in a commitment by the Group over a multi-year period is subjected to an approval process at the Maison involved, adjusted depending on the related financial and operational risk factors. Agreements are also reviewed by the Group's in-house legal counsel, together with its insurance brokers.

In addition, the Group has made commitments to its partners in some of its business activities to acquire their stakes in the activities in question should they express an interest in such a sale, according to a contractual pricing formula. As of December 31, 2018, this commitment was valued at 9.3 billion euros and is recognized in the Group's balance sheet under "Other non-current liabilities" (see Note 20 to the consolidated financial statements).

The Group has also made commitments to some of the shareholders of its subsidiaries to distribute a minimum amount of dividends, provided the subsidiaries in question have access to sufficient cash resources. This relates in particular to the businesses of Moët Hennessy and DFS, for which the minimum dividend amount is contractually agreed to be 50% of the consolidated net profit of these entities.

1.1.4. Anticipating expectations of Group customers

Understanding the needs of customers is vital in order to be able to offer suitable products and a personalized customer experience. Therefore, the Group is committed to supplying its customers with sincere and clear information about the manufacturing method, effects and correct use of its products, and to not making any misleading statements concerning its products and their methods of production. The Group is aware of the impact on society of its products and their image, and is committed to being as vigilant as possible in its commercial and advertising communications, by promoting responsible behavior.

Brands must also identify new trends, changes in consumer behavior, and in consumers' tastes, in order to offer products and experiences that meet their expectations. Failing this, the continued success of their products would be threatened. By cultivating strong ties and continually replenishing their traditional sources of inspiration – ranging from art to sports, cinema and new technologies – the Group's various brands aim at all times to better anticipate and fully respond to their customers' changing needs, in line with each brand's specific identity and its particular affinities in its sphere of activity.

1.1.5. International exposure of the Group

The Group conducts business internationally and as a result is subject to various types of risks and uncertainties. These include changes in customer purchasing power and the value of operating assets located abroad; economic changes that are not necessarily simultaneous from one geographic region to another; and provisions of corporate or tax law, customs regulations or import restrictions imposed by some countries that may, under certain circumstances, penalize the Group.

In order to protect itself from the risks associated with an inadvertent failure to comply with a change in regulations, the Group has established a regulatory monitoring system in each of the regions where it operates.

The Group maintains very few operations in politically unstable regions. The legal and regulatory frameworks governing the countries where the Group operates are well established. It is important to note that the Group's activity is spread for the most part between three geographical and monetary regions: Asia, Western Europe and the United States. This geographic balance helps to offset the risk of exposure to any one area.

Furthermore, a significant portion of Group sales is directly linked to fluctuations in the number of tourists. This is especially the case for the travel retail activities within Selective Retailing, but tourists also make up a large percentage of customers frequenting the stores operated by companies in the Fashion and Leather Goods business group. Events likely to reduce the number of tourists (geopolitical instability and insecurity, weakening of the economic environment, natural disasters, etc.) could have an adverse impact on Group sales.

Lastly, the Group is an active participant in current global discussions in support of a new generation of free-trade agreements between the European Union and non-EU countries, which involves not only access to external markets, but also the signing of agreements facilitating access by tourists from non-EU countries to the European Union. Thus, despite a tense security situation leading member states to request enhanced border checks, the European Commission has proposed the creation of a "touring visa" (with an extended stay period and permission to travel around the entire Schengen area) that will facilitate luxury tourism shopping in the European Union.

1.1.6. Seasonality

Nearly all of the Group's activities are subject to seasonal variations in demand. A significant proportion of the Group's sales – approximately 30% of the annual total for all of the Group's businesses – is generated during the peak holiday season in the fourth quarter of the year. Unexpected events in the final months of the year may have a significant impact on the Group's business volume and earnings.

1.1.7. Strategic competencies

The Group's professions require highly specific skills and expertise, in the areas of leather goods or watchmaking, for example. To avoid any dissipation of this expertise, the Group implements a range of measures to encourage training and to safeguard these professions, which are essential to the quality of its products, notably by promoting the recognition of the luxury trades as professions of excellence, with criteria specific to the luxury sector and geared to meet its demands and requirements.

Skills management is a significant aspect of risk management and internal control. The Group devotes special care to matching employee profiles and responsibilities, formalizing annual performance reviews, developing skills through continuing training, and promoting internal mobility. More information can be found in the Management Report of the Board of Directors – "Attracting and retaining talent" (§3 "A fulfilling work environment").

Lastly, the Group's success also rests on the development of its retail network and on its ability to obtain the best locations without undermining the future profitability of its points of sale. The Group has built up specific real estate expertise that it shares with companies across the Group, which contributes to the optimal development of its retail network.

1.1.8. Information systems

The Group is exposed to cyber risks relating to its information systems, arising either from internal or external attacks or from unintended events. The occurrence of these risks may result in the loss, corruption or disclosure of sensitive data, including information relating to products, customers or financial data. Such risks may also involve the partial or total unavailability of some systems, impeding the normal operation of the processes and business activities concerned. In order to protect against these risks, the Group has set up a shared cyber-security unit to monitor and detect suspicious security events and provide support to every Maison by responding to verified incidents. As the information system architecture is decentralized, the spillover of risks between Maisons remains limited. Supported by its network of IT security managers, the Group continues to implement a full set of technical and organizational measures to protect sensitive data and systems, as well as business continuity and incident recovery plans, at each Maison.

1.1.9. Industrial, environmental and meteorological risks

A detailed presentation of the Group's environmental risk factors and the measures taken to ensure compliance by its business activities with legal and regulatory provisions is provided in the "Environment and sustainability" section.

The Group's wines and spirits production activities depend on weather conditions before the grape harvest. Champagne growers and merchants have set up a mechanism to cope with variable harvests, which involves stockpiling wines in a qualitative reserve. For a description of this mechanism, see the Management Report of the Board of Directors – "Business overview, highlights and outlook" (§1.1.4 "Grape supply sources and subcontracting").

In its production and storage activities, the Group is exposed to the risk of losses from events such as fires, water damage or natural disasters.

To identify, analyze and provide protection against industrial and environmental risks, the Group relies on a combination of independent experts and qualified professionals from its Maisons, and in particular safety, quality and environmental managers. The definition and implementation of the risk management policy are handled by the Finance Department.

Protecting the Group's assets is part of an industrial risk prevention policy that meets the highest safety standards (FM Global and NFPA fire safety standards). Working with its insurers, the Group has adopted HPR (Highly Protected Risk) standards, the objective of which is to significantly reduce fire risk and associated operating losses. Continuous improvement in the quality of risk prevention is an important factor taken into account by insurers in evaluating these risks and, accordingly, in the granting of comprehensive coverage at competitive rates.

This approach is combined with an industrial and environmental risk-monitoring program; see also the Management Report of the Board of Directors – "Environment and sustainability" (§5 "LIFE 2020 – 'Sites' target").

In addition, prevention and protection plans include contingency planning to ensure business continuity.

Lastly, financial risks relating to the effects of climate change as well as measures adopted to mitigate those risks are described in the "Environment and sustainability" section.

1.2. FINANCIAL RISKS

1.2.1. Tax policy

The Financière Agache group's tax policy is in line with the principles described in the Group's Code of Conduct. Accordingly, compliance with the laws and regulations in force in the countries where it operates and adherence to best practices are fundamental principles for the Group, which remains committed to abiding by the letter and the spirit of the applicable texts.

The Group's tax policy reflects its real activities and the Group's development, while preserving its competitiveness. Through its activities, the Group plays a key role in local and regional development in the areas where it operates, in particular by means of its tax payments. Apart from corporate income tax, the Group pays and collects a number of other taxes and contributions, including value-added tax and taxes on revenue, customs duties, excise taxes, payroll taxes, land taxes, and other local taxes specific to each country, which are all part of the Group's economic contribution to the regions where it operates.

The Group adopts an attitude of transparency in its relations with tax authorities and undertakes to consistently provide them with relevant information enabling them to successfully carry out their duties. The Group complies with country-by-country reporting obligations and sends the required information to the tax authorities in accordance with applicable provisions.

1.2.2. Credit risk

Due to the nature of its activities, a significant portion of the Group's sales is not exposed to customer credit risk. Sales are made directly to customers through the Selective Retailing network, the Fashion and Leather Goods stores and, to a lesser extent, the Watches and Jewelry stores. Together, these sales accounted for approximately 69% of total revenue in 2018.

Furthermore, for the remaining revenue, the Group's businesses are not dependent on a limited number of customers whose default would have a significant impact on Group activity levels or earnings. The extent of insurance against customer credit risk is satisfactory, with around 84% of LVMH's credit coverage requests granted by insurers as of December 31, 2018.

1.2.3. Counterparty risk

Through its financing, investment and market risk hedging operations, the Financière Agache group is exposed to counterparty risk, mainly banking-related, which must be regularly and actively managed. Diversification of this risk is a key objective. Special attention is given to the exposure of our bank counterparties to financial and sovereign credit risks, in addition to their credit ratings, which must always be in the top-level categories.

1.2.4. Foreign exchange risk

A substantial portion of the Group's sales is denominated in currencies other than the euro, particularly the US dollar (or currencies tied to the US dollar such as the Hong Kong dollar) and the Japanese yen, while most of its manufacturing expenses are euro-denominated.

Exchange rate fluctuations between the euro and the main currencies in which the Group's sales are denominated can therefore significantly impact its revenue and earnings reported in euros, and complicate comparisons of its year-on-year performance.

The Group actively manages its exposure to foreign exchange risk in order to reduce its sensitivity to unfavorable currency fluctuations by implementing hedges such as forward sales and options. An analysis of the sensitivity of the Group's net profit to fluctuations in the main currencies to which the Group is exposed, as well as a description of the extent of forecast cash flow hedging for 2019 relating to the main invoicing currencies are provided in Note 22.5 to the consolidated financial statements.

Owning substantial assets denominated in currencies other than the euro (primarily the US dollar and Swiss franc) is also a source of foreign exchange risk with respect to the Group's net assets. This currency risk may be hedged either partially or in full using borrowings or financial futures denominated in the same currency as the underlying asset. An analysis of the Group's exposure to foreign exchange risk related to its net assets for the main currencies involved is presented in Note 22.5 to the consolidated financial statements.

1.2.5. Interest rate risk

The Financière Agache group's exposure to interest rate risk may be assessed with respect to the amount of its consolidated net financial debt, which totaled 7.9 billion euros as of December 31, 2018. After hedging, 52% of gross financial debt outstanding was subject to a fixed rate of interest and 48% was subject to a floating rate. An analysis of borrowings by maturity and type of rate applicable as well as an analysis of the sensitivity of the cost of net financial debt to changes in interest rates are presented in Notes 18.4 and 18.6 to the consolidated financial statements.

The Group's debt is denominated in various currencies, with the portion denominated in currencies other than the euro most often converted to euros via cross-currency swaps; the Group is then mainly exposed to fluctuations in euro interest rates. This interest rate risk is managed using swaps or by purchasing options (protection against an increase in interest rates) designed to limit the adverse impact of unfavorable interest rate fluctuations.

Through its use of forwards and options to hedge foreign exchange risk as described in §1.2.4, the Group is also exposed to the spreads in interest rates between the euro and the hedged currencies.

1.2.6. Equity market risk

The Group's exposure to equity market risk mainly relates to its ownership interests in Christian Dior and LVMH, as well as to Christian Dior and LVMH treasury shares, which are primarily held to cover stock option, bonus share and bonus performance share plans.

Moreover, listed securities may be held by some of the funds in which the Group has invested, or directly in non-current or current available for sale financial assets.

The Group may use derivatives in order to reduce its exposure to risk. Derivatives may serve as a hedge against fluctuations in share prices. For instance, they may be used to cover cash-settled compensation plans or financial instruments index-linked to the change in the LVMH share price. Derivatives may also be used to create a synthetic long position.

1.2.7. Commodity market risk

The Group – mainly through its Watches and Jewelry business group – may be exposed to changes in the prices of certain precious metals, such as gold. In certain cases, to ensure visibility with regard to production costs, hedges may be implemented. This is achieved either by negotiating the price of future deliveries of alloys with precious metal refiners, or the price of semi-finished products with producers, or directly by purchasing hedges from top-ranking banks. In the latter case, hedging consists of purchasing gold from banks, or taking out future and/or options contracts with physical delivery upon maturity.

1.2.8. Liquidity risk

In addition to local liquidity risks, which are generally immaterial, the Financière Agache group's exposure to liquidity risk can be assessed either (i) with regard to short-term negotiable debt securities outstanding, i.e. 4.0 billion euros; or (ii) by comparing the amount of short-term gross borrowings, excluding the impact of derivatives (11.4 billion euros), to the amount of cash and cash equivalents (9.1 billion euros). Should any of these borrowing facilities not be renewed, the Group has access to undrawn confirmed credit lines totaling 7.4 billion euros.

With respect to its investments in funds, the Financière Agache group makes sure that the percentage it holds in any given fund remains limited and is therefore unlikely to have an adverse material impact on the conditions for entry to or exit from the fund.

Therefore, the Group's liquidity is based on the large amount of its investments and long-term borrowings, the diversity of its investor base (bonds and short-term securities), and the quality of its banking relationships, whether evidenced or not by confirmed credit lines.

Agreements governing financial debt and liabilities are not associated with any specific clause likely to significantly modify their terms and conditions.

The breakdown of financial liabilities by contractual maturity is presented in Note 22.7 to the consolidated financial statements.

1.2.9. Organization of foreign exchange, interest rate, and equity market risk management

The Group applies an exchange rate and interest rate management strategy designed primarily to reduce any negative impacts of foreign currency or interest rate fluctuations on its business and investments.

The Group has implemented policies, guidelines and procedures to measure, manage and monitor these market risks.

These activities are organized based on a segregation of duties between hedging (front office), administration (back office) and control.

The backbone of this organization is an integrated information system, which allows hedging transactions to be monitored quickly.

The Group's hedging strategy is presented to the Board of Directors.

Hedging decisions are made according to a clearly established process that includes regular presentations to the management bodies concerned and detailed documentation.

2. Insurance policy

The Group has a dynamic global risk management policy based primarily on the following:

- systematic identification and documentation of risks;
- risk prevention and mitigation procedures for both human risk and industrial assets;
- implementation of international business continuity and contingency plans;
- comprehensive risk financing program to limit the consequences of major events on the Group's financial position;
- optimization and coordination of global "master" insurance programs.

The Group's overall approach is primarily based on transferring its risks to the insurance markets at reasonable financial terms, and under conditions available in those markets both in terms of scope of coverage and limits. The extent of insurance coverage is directly related either to a quantification of the maximum possible loss, or to the constraints of the insurance market.

Compared with the Group's financial capacity, its level of self-insurance is not significant. The deductibles payable by Group companies in the event of a claim reflect an optimal balance between coverage and the total cost of risk. Insurance costs borne by Group companies are around 0.15% of consolidated revenue.

The financial ratings of the Group's main insurance partners are reviewed on a regular basis, and if necessary one insurer may be replaced by another.

The main insurance programs coordinated by the Group are designed to cover losses due to property damage, business interruption, terrorism, construction, transportation, credit, third-party liability, and product recalls.

2.1. PROPERTY AND BUSINESS INTERRUPTION INSURANCE

Most of the Group's manufacturing operations are covered under a consolidated international insurance program for property damage and resulting business interruption.

Property damage insurance limits are in line with the values of assets insured. Business interruption insurance limits reflect gross margin exposures of the Group companies for a period of indemnity extending from 12 to 24 months based on actual risk exposures. The coverage limit of this program is 2 billion euros per claim, an amount determined based on an analysis of the Group's maximum possible losses.

Coverage for "natural events" provided under the Group's international property insurance program was doubled in 2018 and now totals 150 million euros per claim and per year. As a result of a Japanese earthquake risk modeling study performed in 2014, as well as an update of the major risk areas in 2016 and 2018, specific coverage in the amount of 20 billion yen has been taken out for this risk. A similar study was carried out in 2018 for earthquake risk in California, following which coverage in the amount of 75 million US dollars was taken out, representing a considerable increase from 2017. These coverage levels are in line with the Group's companies' exposure to such risks.

2.2. TRANSPORTATION INSURANCE

All Group operating entities are covered by an international cargo and transportation (goods in transit) insurance contract. The coverage limit of this program is 60 million euros, which corresponds to the maximum possible transport loss arising as a result of transportation in progress at a given moment.

2.3. THIRD-PARTY LIABILITY

The LVMH group has established a third-party liability and product recall insurance program for all its subsidiaries throughout the world. This program is designed to provide the most comprehensive coverage for the Group's risks, given the insurance capacity and coverage available internationally. Coverage levels are in line with those of companies with comparable business operations. As regards product recalls, the cover purchased is considerably more than the average available on the worldwide market.

Both environmental losses arising from gradual as well as sudden and accidental pollution and environmental liability (Directive 2004/35/EC) are covered under this program.

Specific insurance policies have been implemented for countries where work-related accidents are not covered by state insurance or social security regimes, such as the United States. Coverage levels are in line with the various legal requirements imposed by the different states. Subject to certain conditions and limitations, the Group covers its senior executives and employees either directly or via an insurance policy for any individually or jointly incurred personal liability to third parties in the event of professional misconduct committed in the course of their duties.

2.4. COVERAGE FOR SPECIAL RISKS

Insurance coverage for political risks, company officers' liability, fraud and malicious intent, trade credit risk, acts of terrorism and political violence, loss or corruption of computer data and, more broadly, all cyber risks, real estate construction project risks and environmental risks is obtained through specific worldwide or local policies.

3. Assessment and control procedures in place

3.1. ORGANIZATION

3.1.1. Risk management and control activities within Financière Agache SA

Control environment

Given the fact that it belongs to a group with the necessary administrative skills, Financière Agache uses the specialized services of Groupe Arnault SEDCS, which mainly relate to legal, financial and accounting matters. A service agreement has been entered into with Groupe Arnault SEDCS for this purpose.

Regarding the Group's external services, the Shareholders' Meeting of Financière Agache appointed two first-tier accounting firms as Statutory Auditors, which also serve in the same capacity on behalf of Christian Dior and LVMH.

Key elements of internal control procedures

Risk management is based first and foremost on a regular review of the risks incurred by the Company so that internal control procedures can be adapted. Given the nature of the Company's activity, the primary objective of internal control systems is to mitigate risks of error and fraud in accounting and finance. The following principles form the basis of the Company's organization:

- very limited, very precise delegations of power, which are known by the counterparties involved, with sub-delegations reduced to a minimum;
- upstream legal control before signing agreements;
- separation of the expense and payment functions;
- secure payments;
- procedural rules known by potential users;
- integrated databases (single entry for all users);
- frequent internal and external audits.

Internal controls relating to the preparation of the parent company's financial and accounting information

The individual company and consolidated financial statements are subject to a detailed set of instructions and a specially adapted data submission system designed to facilitate complete and accurate data processing within suitable timeframes. The exhaustive controls performed at the Christian Dior and LVMH sub-consolidation level ensure that information is integrated.

Legal control

Securities held by the subsidiaries are subject to reconciliation between the Company's Accounting Department and the Group's Securities Department on a regular basis.

3.1.2. Organization of the risk management and internal control system at LVMH

LVMH comprises five main business groups: Wines and Spirits, Fashion and Leather Goods, Perfumes and Cosmetics, Watches and Jewelry, and Selective Retailing. Other activities mainly consist of the media business unit, luxury yacht building and marketing, hotel and real estate activities, and holding companies. These business groups consist of entities of various sizes that own prestigious brands, established on every continent. The autonomy of the brands, decentralization, and the responsibilities of senior executives are among the fundamental principles underlying the Group's organization.

The risk management and internal control policies applied across the Group are based on the following organizational principles:

- Holding companies – including the parent company, LVMH SE – are responsible for their own risk management and internal control systems. LVMH SE also acts as leader and coordinator on behalf of all LVMH group companies; it provides them with a single reference framework and methodology as well as an application platform that centralizes all risk and internal control data (see §3.5.1 below);
- Each Maison's President is responsible for risk management and internal control at all subsidiaries that contribute to brand development worldwide; each subsidiary's President is similarly responsible for that subsidiary's own operations.

3.1.3. Financial and accounting information: Organization and parties involved

At Financière Agache level

As noted above, as of December 31, 2018 Financière Agache directly and indirectly controlled two main assets: a 95% equity stake in Christian Dior and a 44.6% equity stake in LVMH. The Group's Finance Department oversees the production of the parent company and consolidated financial statements.

At Christian Dior level

Christian Dior is a holding company that directly and indirectly controls a 41% equity stake in LVMH. LVMH is a listed company with a governance structure that checks the integrity and relevance of its own financial information. Its organization is described in detail below. At the Christian Dior SE level, financial information intended for the financial markets (financial analysts, investors, individual shareholders, market authorities) is provided under the supervision of the Company's **Finance Department**, which also oversees the production of the parent company and consolidated financial statements as well as the publication of the Annual Report and the Interim Financial Report. This information is strictly defined by current market rules, specifically the principle of equal treatment of investors.

At LVMH level

Risk management and internal controls of accounting and financial information are the responsibility of the following departments, which are all part of the LVMH group's Finance Department: Accounting and Consolidation, Management Control, Information Systems, Corporate Finance and Treasury, Tax, and Financial Communications.

Accounting and Consolidation is responsible for preparing and producing the individual company accounts of LVMH SE and the holding companies that control the Group's equity holdings, the consolidated financial statements, and interim and annual results publications, in particular the Interim Financial Report and the Reference Document. To this end, the Accounting Standards and Practices team defines and disseminates the Group's accounting policies, monitors and enforces their application and organizes any related training programs that may be deemed necessary. The Consolidation Department also coordinates the LVMH group's Statutory Auditors.

Management Control is responsible for coordinating the budget process, updating budget estimates during the year and the five-year strategic plan, as well as impairment testing of fixed assets. Management Control produces the monthly operating report and all reviews required by Executive Management; it also tracks capital expenditures and cash flow, as well as producing statistics and specific operational indicators. By virtue of its responsibilities and the structure of the reports it produces, Management Control plays a key role in internal control and financial risk management.

These two functions are placed under the responsibility of the Deputy CFO.

The **Information Systems Department** designs and implements information systems needed by the central functions. It disseminates the LVMH group's technical standards, which are indispensable given the decentralized structure of the LVMH group's equipment, applications, networks, etc., and identifies any potential synergies between businesses, while respecting brand independence. It develops and maintains a telecommunications system, IT hosting platforms, and cross-functional applications shared by all entities in the Group. In cooperation with the subsidiaries, it supervises the creation of three-year plans for all information systems by business group and by entity. It defines strategic orientations in terms of cybersecurity, devises and publishes internal policies and shared plans of action, and helps brands to implement detection and incident response systems, as well as to devise backup plans.

Corporate Finance and Treasury is responsible for implementing the LVMH group's financial policy, which includes balance sheet optimization, financing strategy, management of finance costs, returns on cash surpluses and investments, improvements to financial structure, and the prudent management of solvency, liquidity, market and counterparty risk.

Within this department, the International Treasury team focuses more specifically on pooling the Group's surplus cash, and meets subsidiaries' short- and medium-term liquidity and financing requirements. It is also responsible for applying a centralized foreign exchange risk management strategy.

The Markets team, which is also part of Corporate Finance and Treasury, is delegated the responsibility of implementing a centralized market risks policy generated by Group companies: foreign exchange, interest rate and counterparty risks incorporated into the assets and liabilities.

Strict procedures and a management policy have been established to measure, manage and consolidate these market risks. Within this department, the separation of front office and back office activities, combined with an independent control team reporting to the Deputy CFO, help ensure proper segregation of duties. This organization relies on an integrated computerized system allowing real-time controls on hedging transactions. The hedging mechanism is presented regularly to the LVMH group's Executive Committee as well as the Performance Audit Committee and is supported by detailed documentation.

The **Tax Department** ensures compliance with applicable laws and regulations, advises the various business groups and companies, and proposes tax solutions appropriate to the LVMH group's operational requirements. It organizes appropriate training courses in response to major changes in tax legislation and provides uniform reporting of tax data.

The **Financial Communications Department** is responsible for coordinating all information issued to the financial community to provide it with a clear, transparent and accurate understanding of the Group's performance and outlook. It also provides Executive Management with the perspectives of the financial community on the Group's strategy and its positioning within its competitive environment. It works closely with Executive Management and the business groups to define key messages, and harmonizes and coordinates the dissemination of those messages through various channels (publications such as the annual and interim reports, financial presentations, meetings with shareholders and analysts, the website, etc.).

Each of these departments is responsible for ensuring the quality of internal control in its own area of activity via the finance departments of business groups, companies and subsidiaries, which are in turn responsible for similar functions within their respective entities. In this way, each of the central departments runs its control mechanism through its functional chain of command (Controller, Head of Accounting, Consolidation Manager, Treasurer, etc.). The finance departments of the main companies of the Group and the departments of LVMH, described above, periodically organize joint finance committee meetings. Run and coordinated by the central departments, these committee meetings deal particularly with applicable standards and procedures, financial performance and any corrective action needed, together with internal control relating to accounting and management data.

3.2. INTERNAL STANDARDS AND PROCEDURES

Via **LVMH's Ethics & Compliance Intranet**, which may be accessed by all Group employees, the Group disseminates a set of codes, charters and principles intended to guide the holding company and the Maisons in conducting their activities. These primarily include the Code of Conduct, the Group's internal guiding principles, the Supplier Code of Conduct and various charters (Board of Directors' Charter, Charter on Models' Working Conditions and Well-Being, Competition Law Compliance Charter, Environmental Charter, IT Systems Security Charter, Privacy Charter, etc.).

Through its **Finance Intranet**, LVMH provides access to all rules and procedures concerning accounting and financial information, applicable to all subsidiaries: notably procedures applying to accounting policies and standards, consolidation, taxation, investments, reporting (budgets and strategic plans), cash management and financing (cash pooling, foreign exchange and interest rate hedging, etc.); these procedures also specify the format, content and frequency of financial reporting.

The Finance Intranet is also used for the dissemination of internal control principles and best practices:

- the LVMH internal control framework, which covers the general control environment as well as 14 key business processes shared by all of the Group's activities: Sales, Retail Sales, Purchases, Licenses, Travel, Inventory, Production, Cash Management, Fixed Assets, Human Resources, Information Systems and Accounting Period-End Procedures, Environment, Insurance;
- the minimum basis for internal control, known as IC Base, made up of 67 key controls taken from LVMH guidelines, supporting annual self-assessment; IC Base was extended this year to include compliance with the provisions of the Sapin II law and the duty of care law enacted in France, as well as laws on data protection and privacy, together with new LVMH standards relating to cybersecurity;
- business line guidelines developed to reflect the specific characteristics of the Group's activities (Wines and Spirits, Fashion and Leather Goods, Perfumes and Cosmetics, Watches and Jewelry, Duty-Free Concessions).

The **"Major Risks" section of the Finance Intranet** brings together procedures and tools for assessing, preventing and protecting against such risks. Best practices for the operational risk families selected are also available on the site. These materials may be accessed by all personnel involved in the application of the Group's risk management.

Lastly, the **Group Legal Department** prepares tools for the Maisons that aim to allow them to comply with (i) various regulations, in particular those relating to combating money laundering, limits on cash payments in force in the main markets in which the Group operates, embargos and economic sanctions imposed by certain countries, and (ii) the European Union's new General Data Protection Regulation (GDPR).

3.3. INFORMATION AND COMMUNICATION SYSTEMS

Strategic plans for developing the Group's information and communication systems are coordinated by the Information Systems Department, which ensures that all solutions implemented are harmonized and that business continuity plans are in place. Aspects of internal control (segregation of duties, access rights, etc.) are integrated when implementing new information systems and then regularly reviewed.

Information and telecommunications systems and their associated risks (physical, technical, internal and external security, etc.) are covered by special procedures: a business continuity planning methodology toolkit has been disseminated within the Group to define, for each significant entity, the broad outline of a business continuity plan as well as a disaster recovery plan. A Business Continuity Plan and a Disaster Recovery Plan have been developed and tested at the level of the French holding companies.

All significant entities have appointed a Chief Information & Security Officer (CISO). The activities of CISOs are coordinated by the Group CISO; together they constitute a vigilance network to monitor the development of risks affecting information systems, and implement adequate defenses depending on the likelihood of a given type of risk and its potential impact.

Audit programs, intrusion testing and vulnerability audits are performed by entities and by the Group's Information Systems Department.

In April 2015, LVMH set up an operations center to monitor and assess information systems security for all of the Group's Maisons.

3.4. INTERNAL AND EXTERNAL ACCOUNTING CONTROL PROCEDURES

3.4.1. Accounting and management policies

Subsidiaries adopt the accounting and management policies communicated by the Group for the purposes of the published consolidated financial statements and internal reporting; they all use the same framework (chart of accounts and manual of accounting policies) and the accounting and management reporting system administered by the Group, thus ensuring consistency between internal and published data.

3.4.2. Consolidation process

The account consolidation process is covered by regular detailed instructions; a specially adapted data submission system facilitates consistent, comprehensive and reliable data processing within the appropriate timeframes. The Chairman and CFO of each company undertake to ensure the quality and completeness of financial information sent to the Group – including off-balance sheet items – in a signed letter of representation which gives added weight to the quality of their financial information.

Sub-consolidations are carried out at the level of each Maison and business group, which act as primary control filters and help ensure consistency.

At the level of LVMH, the teams in charge of consolidation are organized by type of business and are in permanent contact with the business groups and companies concerned, thereby enabling them to better understand and validate the reported financial data and anticipate the treatment of complex transactions.

The quality of financial information, and its compliance with standards, are also guaranteed through ongoing exchanges with the Statutory Auditors whenever circumstances are complex and open to interpretation.

3.4.3. Management reporting

Each year, the Group's consolidated companies produce a strategic plan, a complete budget, and annual forecasts. Detailed instructions are sent to the companies for each process.

These key steps represent opportunities to perform detailed analyses of actual data compared with budget and prior year data, and to foster ongoing communication between the subsidiaries and LVMH – an essential feature of the financial internal control mechanism.

A team of controllers at LVMH, specialized by business, is in permanent contact with the business groups and companies concerned, thus ensuring better knowledge of performance and management decisions, as well as appropriate controls.

Specific meetings to close out the interim and annual financial statements are attended by the departments concerned and the LVMH Finance Department; during those meetings the Statutory Auditors present their conclusions with regard to the quality of financial and accounting information and the internal control environments of the different LVMH companies.

3.5. FORMALIZATION AND MONITORING OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

3.5.1. The Enterprise Risk and Internal Control Assessment (ERICA) approach

In line with European directives, the Group has implemented an approach known as ERICA (Enterprise Risk and Internal Control Assessment), a comprehensive process for improving and integrating systems for managing major risks and internal control related to its day-to-day activities.

Since 2015, this approach has been rolled out across all of the Group's brands. It includes annual mapping of the major risks for each brand and self-assessment of 67 key controls taken from the internal control guidelines by all Group entities at least every three years. During this three-year period, the Group applies self-assessment across a limited scope of entities that is reviewed every year, with the Maisons having free rein to extend the process to a wider scope as they see fit. The first three-year cycle was completed on June 30, 2018, and restarted with the 2018/2019 campaign, once again covering all Group entities generating at least 10 million euros in revenue.

Recently acquired entities are allowed two years to implement this approach once the integration process has been completed.

The Maisons and business groups acknowledge their responsibility in relation to this process each year by signing two letters of representation:

- An ERICA letter of representation concerning risk management and internal control systems, signed on June 30. By signing this letter, the President, CFO and/or members of the Management Committee at each entity confirm their responsibility for these systems, and give their assessment of them, identifying major weaknesses and the corresponding remediation plans. These letters are analyzed, followed up on and "consolidated" at each higher level of the Group's organizational structure (region, Maison and business group); they are forwarded to the Group's Finance Department and to its Audit and Internal Control Department. They are also made available to the Statutory Auditors;
- The annual letter of representation on financial reporting, which includes a paragraph devoted to internal control.

Since 2013, depending on the circumstances, Presidents of Maisons have been required to present the Performance Audit Committee with an update on achievements, action plans in progress, and the outlook for their area of responsibility, in terms of internal control and risk management.

3.5.2. Monitoring of major risks and internal control

Major risks relating to the Group's brands and businesses are managed at the level of each business group and Maison. As part of the budget cycle and in connection with the preparation of the three-year plan, major risks affecting strategic, operational and financial objectives are identified and evaluated, and formalized in specific chapters.

Once an acceptable risk level has been determined and validated, risks are handled via preventive and protective measures; the latter include business continuity plans (BCP) and crisis management plans in order to organize the best response to risks once they have occurred. Finally, depending on the types of risk to which a particular brand or entity is exposed and the amount of residual risk, the entity may decide, in collaboration with the Group, to use the insurance market to transfer part or all of the residual risk and/or assume this risk.

Ongoing monitoring of the internal control system and periodic reviews of its functioning take place on a number of levels:

- managers and operational staff at the Maisons, with support from internal control staff, are given responsibility for assessing the level of internal control on the basis of key controls, identifying weaknesses, and taking corrective action. Exception reports allow for the enhancement of detective controls in addition to preventive measures;
- a formal annual self-assessment process, based on a list of key controls taken from the internal control framework, integrated into the ERICA system (see above);

- the Statutory Auditors are kept informed of this approach, as is the Performance Audit Committee, by means of regular briefings;
- reviews are carried out by Group Internal Audit and the Statutory Auditors, the findings and recommendations of which are passed on to entities' management and Group Executive Management;
- a review of the ERICA system and the quality of self-assessment is an integral part of the work of the Internal Audit team at all audited entities.

3.6. FRAUD PREVENTION AND DETECTION

Over the past few years, fraud risk has dramatically transformed, with an upsurge in fraud through identity theft and an increase in attacks using social engineering to gain access and steal data. The Group and its Maisons have stepped up their vigilance, adapting internal procedures, awareness campaigns and training programs to the changing scenarios encountered or that might reasonably be predicted.

Given the large number of controls intended to prevent and detect this risk, the internal control framework is the backbone of the Group's fraud prevention mechanism.

Another essential component of this system is the obligation for each entity to report any instances of actual or attempted fraud to LVMH's Audit and Internal Control Director: as well as supervising actions and decisions in response to each reported case, the Director endeavors to draw lessons from incidents so as to relay them, once anonymized, to the chief financial officers of all the Maisons.

The Audit and Internal Control Department at LVMH has therefore introduced a program to raise awareness of the risk of fraud through periodic communiqués identifying scenarios of actual and attempted fraud within the Group. A prevention plan is presented for each scenario. The Maisons and subsidiaries are responsible for verifying whether or not these scenarios apply to their operations. These communiqués are disseminated widely within the Group to ensure ongoing awareness among those staff most exposed to this risk.

Lastly, a specific fraud module has been added that forms part of the LVMH Internal Control Academy's "The Fundamentals" training program.

Management Report of the Board of Directors – Financière Agache SA

1. Results of Financière Agache SA

During the fiscal year, Financière Agache increased its indirect ownership interest in its subsidiaries Christian Dior and LVMH Moët Hennessy - Louis Vuitton, in particular via Semyrhamis.

Total income from equity investments came to 129.6 million euros in 2018, compared with 81.6 million euros in 2017.

Net financial income was 159.1 million euros, compared with 185.3 million euros in 2017.

Net profit was 150.1 million euros, compared with 181.5 million euros in 2017.

The proposed appropriation of the distributable profit for the fiscal year ended December 31, 2018 is as follows:

Amount available for distribution *(EUR)*

Net profit	150,129,253.19
Retained earnings	2,816,510,395.85
DISTRIBUTABLE EARNINGS	**2,966,639,649.04**
Proposed appropriation	
Distribution of a gross dividend of 70 euros per share	222,134,640.00
Retained earnings	2,744,505,009.04
TOTAL	**2,966,639,649.04**

Should this appropriation be approved, the gross cash dividend distributed would be 70 euros per share. As an interim dividend of 70 euros per share was paid on December 20, 2018, no further dividend payments will be made in respect of the fiscal year under review.

Based on the tax legislation applicable to securities income as it stands at January 1, 2019, this dividend carries an entitlement for French tax residents who have opted for their income on all eligible securities income to be taxed at a progressive rate to a tax deduction of 40%.

Lastly, should the Company hold any treasury shares at the time of payment of this dividend, the corresponding amount of unpaid dividends will be allocated to retained earnings.

Distribution of dividends

As required by law, the following table presents the gross cash dividends per share paid out in respect of the past three fiscal years:

Fiscal year	Type	Payment date	Gross dividend [(a)] *(EUR)*
2017	Interim	December 14, 2017	100.00
	Final	-	-
	TOTAL		**100.00**
2016	Interim	December 13, 2016	26.00
	Final	-	-
	TOTAL		**26.00**
2015	Interim	September 24, 2015	18.50
	Interim	December 17, 2015	155.00
	Final	-	-
	TOTAL		**173.50**

(a) Excluding the impact of tax regulations applicable to recipients.

Information relating to payment terms

Pursuant to the provisions of Articles L. 441-6-1 and D. 441-4 of the French Commercial Code, we hereby inform you that as of December 31, 2018:

- there were no overdue trade accounts payable;
- there were no overdue trade accounts receivable.

2. Information regarding the Company's share capital

As of December 31, 2018, the share capital totaled 50,773,632 euros, divided into 3,173,352 shares with a par value of 16 euros each. As of December 31, 2018, 3,619 of these shares (0.11% of the share capital) were held by the Company, with a total market value of 448,396 euros.

Since 1996, the Company's shares have not been traded on a regulated market. As required by law, they therefore have the mandatory status of registered shares.

Financière Agache is happy to assist its shareholders with the procedures and formalities involved in the event they wish to trade their shares and, where applicable, to help them find a suitable counterparty.

Pursuant to the provisions of Article L. 225-102 of the French Commercial Code, we hereby inform you that no employee of the Company, or of any affiliated company, holds shares in the Company through the types of mutual funds referred to in this legislation.

3. Membership of the Board of Directors

It is proposed that you ratify the co-optation of Invry SAS as a Director until the end of the term of office of its predecessor, Montaigne Finance SAS, i.e. the close of the Shareholders' Meeting held in 2019, and then renew its appointment for a three-year term, as stipulated in the Bylaws.

Board of Directors' report on corporate governance

This report, which was drawn up in accordance with the provisions of Article L. 225-37 et seq. of the French Commercial Code, was approved by the Board of Directors at its meeting of April 26, 2019, and will be submitted for shareholder approval at the Shareholders' Meeting of May 22, 2019.

1. List of all corporate offices and positions held by company officers

1.1. CURRENTLY SERVING DIRECTORS

Florian OLLIVIER, Chairman and Chief Executive Officer

Agache Développement SA	Permanent Representative of Financière Agache, Director
Escorial Development SA	Director
Europatweb SA	Chairman and Chief Executive Officer
Financière Agache SA	Chairman and Chief Executive Officer
Financière Jean Goujon SAS	Chairman
FJG Patrimoine SAS	Chairman
GA Placements SA	Permanent Representative of Invry, Director
GMPI	Director
Groupe Arnault SEDCS	Chief Executive Officer – Member of the Executive Board
Hermiole SAS	Chairman
Invry SAS	Chairman
JGPG SAS	Chairman
Kléber Participations SARL	Managing Director
Le Peigné SA	Director
Montaigne Services SNC	Managing Director
Semyrhamis SA	Managing Director, non-Director Permanent Representative of Financière Agache, Director
Semyrh-Europe SA	Director
Sevrilux SNC	Legal representative of Financière Agache, Managing Director

Lord POWELL of BAYSWATER

Financière Agache SA	Director
Hong Kong Land Holdings	Director
Jardine Strategic Holdings	Director
LVMH Moët Hennessy - Louis Vuitton SE	Director
LVMH Services Limited	Chairman of the Board of Directors
Matheson & Co. Ltd	Director
Northern Trust Corporation	Director

GA PLACEMENTS SA

Financière Agache SA	Director

Pierre DEHEN, Permanent Representative

Agache Développement SA	Permanent Representative of Groupe Arnault, Director
Asopis SAS	Chairman
Financière Agache SA	Permanent Representative of GA Placements, Director
GA Placements SA	Chairman and Chief Executive Officer
La Flèche SNC	Managing Director
LC Investissements SAS	Member of the Management Committee
Union +	Permanent Representative of LVMH Moët Hennessy - Louis Vuitton, Director

GROUPE ARNAULT SEDCS

Agache Développement SA	Director
Europatweb SA	Director
Financière Agache SA	Director
GA Placements SA	Director
Semyrhamis SA	Director

Nicolas BAZIRE, Permanent Representative and Group Managing Director

Agache Développement SA	Director
Atos SE	Director
Carrefour SA	Director
Christian Dior SE	Director
Europatweb SA	Director
Financière Agache SA	Managing Director and Permanent Representative of Groupe Arnault, Director
Groupe Arnault SEDCS	Chief Executive Officer
Groupe Les Echos SA	Director
Jean Patou SAS	Member of the Advisory Committee
Les Echos SAS	Vice-Chairman of the Supervisory Board
LVMH Moët Hennessy - Louis Vuitton SE	Director
Louis Vuitton, Fondation d'Entreprise	Director
Louis Vuitton Malletier SA	Permanent Representative of Ufipar, Member of the Steering Committee
LV Group SA	Director
Semyrhamis SA	Managing Director, non-Director Permanent Representative of Groupe Arnault, Director
Société des Bains de Mer de Monaco SA	Permanent Representative of Ufipar, Director
Suez SA	Director

1.2. DIRECTORS WHOSE TERMS OF OFFICE ARE PROPOSED FOR RENEWAL AT THE SHAREHOLDERS' MEETING

INVRY SAS

Financière Agache SA	Director
GA Placements SA	Director

Pierre DE ANDREA, Permanent Representative

Agache Développement SA	Chairman and Chief Executive Officer
CD Investissements SAS	Chairman
CPV Investissement SARL	Managing Director
Delcia SA	Director
Europimmo SNC	Managing Director
Fimeris SA	Director
Financière Agache SA	Permanent Representative of Invry, Director
Foncière du Nord SC	Managing Director
GA Placements SA	Permanent Representative of Groupe Arnault, Director
Goujon Holding SAS	Chairman
Goujon Participations SAS	Chairman
Mandarine SARL	Managing Director
Métropole 1850 SNC	Managing Director
Sadifa SA	Chairman and Chief Executive Officer
Sanderson International SA	Director
Société de Gestion Financière et de Patrimoine SARL	Managing Director
Société en Nom Collectif Jardin Bleu	Managing Director
Sophiz SA	Director
Westley International SA	Director

2. Summary of existing delegations and financial authorizations and use made of them

Authorizations to increase the share capital (L. 225-129, L. 225-129-2 and L. 228-92 of the French Commercial Code)

Type	Authorization date	Expiry/ Duration	Amount authorized	Issue price determination method	Use as of Dec. 31, 2018
Through the capitalization of profit, reserves, additional paid-in capital or other items (L. 225-129-2 and L. 225-130)	SM 05/31/2017 (7th resolution)	07/31/2019 (26 months)	32 million euros (a) (b) (c)	Not applicable	None
With preferential subscription rights – Ordinary shares and securities giving access to the share capital	SM 05/31/2017 (8th resolution)	07/31/2019 (26 months)	32 million euros (a) (b) (c)	Free	None

(a) A resolution renewing these authorizations will be presented at the Shareholders' Meeting of May 22, 2019.
(b) Maximum nominal amount. Overall cap set by the Shareholders' Meeting of May 31, 2017 for any issues decided upon pursuant to the 7th and 8th resolutions (10th resolution).
(c) As a guide, this equates to 2,000,000 shares on the basis of the par value per unit as of December 31, 2018.

3. Authorizations proposed at the Shareholders' Meeting

3.1. AUTHORIZATIONS TO INCREASE THE SHARE CAPITAL
(L. 225-129, L. 225-129-2 and L. 228-92 of the French Commercial Code)

Type	Authorization date	Expiry/ Duration	Amount authorized	Issue price determination method
Through the capitalization of profit, reserves, additional paid-in capital or other items (L. 225-129-2 and L. 225-130)	SM 05/22/2019 (7th resolution)	26 months	32 million euros (a) (b)	Not applicable
With preferential subscription rights – Ordinary shares and securities giving access to the share capital	SM 05/22/2019 (8th resolution)	26 months	32 million euros (a) (b)	Free

(a) Maximum nominal amount (i.e. 2,000,000 shares based on a par value per unit of 16 euros per share). Overall cap proposed at the Shareholders' Meeting of May 22, 2019 for any issues decided upon pursuant to the 7th, 8th and 9th resolutions (10th resolution).
(b) As a guide, this equates to 2,000,000 shares on the basis of the par value per unit as of December 31, 2018.

3.2. EMPLOYEE SHARE OWNERSHIP (L. 225-129-6 of the French Commercial Code)

Type	Authorization date	Expiry/ Duration	Amount authorized	Issue price determination method
Capital increase reserved for employees who are members of a company savings plan (L. 225-129-6)	SM 05/22/2019 (9th resolution)	26 months	1% of the share capital (a) (b)	According to the regulations in force

(a) Up to the overall maximum of 32 million euros proposed at the Shareholders' Meeting of May 22, 2019, against which this amount would be offset (10th resolution).
(b) As a guide, this equates to 31,733 shares on the basis of the par value per unit as of December 31, 2018.

4. Information on the related-party agreements covered by Article L. 225-37-4 2° of the French Commercial Code

We hereby inform you that no new related-party agreements covered by Article L. 225-37-4 2° of the French Commercial Code were entered into in fiscal year 2018.

Consolidated financial statements

1. Consolidated income statement

(EUR millions, except for earnings per share)	*Notes*	2018	2017 [1]	2016 [1]
Revenue	*23-24*	**46,831**	**43,667**	**39,503**
Cost of sales		(15,630)	(15,106)	(13,555)
Gross margin		**31,201**	**28,561**	**25,948**
Marketing and selling expenses		(17,752)	(16,958)	(15,636)
General and administrative expenses		(3,472)	(3,254)	(3,068)
Income/(loss) from commercial joint ventures and associates	*7*	23	-	6
Profit from recurring operations	*23-24*	**10,000**	**8,349**	**7,250**
Other operating income and expenses	*25*	(126)	(179)	(125)
Operating profit		**9,874**	**8,170**	**7,125**
Cost of net financial debt		(204)	(186)	(183)
Income/(loss) from non-operating joint ventures and associates	*7*	24	20	1
Other financial income and expenses		(261)	26	(133)
Net financial income/(expense)	*26*	**(441)**	**(140)**	**(315)**
Income taxes	*27*	(2,528)	(2,266)	(2,116)
Net profit before minority interests		**6,905**	**5,764**	**4,694**
Minority interests	*17*	4,406	3,774	3,348
Net profit, Group share		**2,499**	**1,990**	**1,346**
Basic Group share of net earnings per share *(EUR)*	*28*	**788.39**	**627.81**	**424.64**
Diluted Group share of net earnings per share *(EUR)*	*28*	**785.87**	**623.40**	**422.43**

(1) The financial statements as of December 31, 2017 and December 31, 2016 have been restated to reflect in particular the retrospective application with effect from January 1, 2016 of IFRS 9 Financial Instruments. See Note 1.2.

2. Consolidated statement of comprehensive gains and losses

(EUR millions)	*Notes*	2018	2017 (1)	2016 (1)
Net profit before minority interests		**6,905**	**5,764**	**4,694**
Translation adjustments	*15.4*	270	(991)	110
Amounts transferred to income statement		(1)	25	(32)
Tax impact		15	(49)	(9)
		284	**(1,015)**	**69**
Change in value of hedges of future foreign currency cash flows		1	369	47
Amounts transferred to income statement		(280)	(104)	(26)
Tax impact		80	(76)	(1)
		(199)	**189**	**20**
Change in value of the ineffective portion of hedging instruments		(271)	(91)	(273)
Amounts transferred to income statement		148	210	180
Tax impact		31	(35)	24
		(92)	**84**	**(69)**
Gains and losses recognized in equity, transferable to income statement		**(7)**	**(742)**	**20**
Change in value of vineyard land	*6*	8	(35)	30
Amounts transferred to consolidated reserves		-	-	-
Tax impact		(2)	82	108
		6	**47**	**138**
Employee benefit commitments:				
Change in value resulting from actuarial gains and losses	29	28	57	(87)
Tax impact		(5)	(24)	16
		23	**33**	**(71)**
Change in value of available for sale financial assets	*7-8, 13*	-	821	1,007
Tax impact		(8)	32	(29)
		(8)	**853**	**978**
Gains and losses recognized in equity, not transferable to income statement		**21**	**933**	**1,045**
Gains and losses recognized in equity		**14**	**191**	**1,065**
Comprehensive income		**6,919**	**5,955**	**5,759**
Minority interests		*4,434*	3,332	3,422
COMPREHENSIVE INCOME, GROUP SHARE		**2,485**	**2,623**	**2,337**

(1) The financial statements as of December 31, 2017 and December 31, 2016 have been restated to reflect in particular the retrospective application with effect from January 1, 2016 of IFRS 9 Financial Instruments. See Note 1.2.

3. Consolidated balance sheet

Assets *(EUR millions)*	*Notes*	**2018**	**2017** [(1)]	**2016** [(1)]
Brands and other intangible assets	*3*	16,211	15,913	15,899
Goodwill	*4*	12,550	12,660	11,402
Property, plant and equipment	*6*	14,475	13,229	12,974
Investments in joint ventures and associates	*7*	1,724	1,657	1,450
Non-current available for sale financial assets	*8*	1,356	1,038	4,623
Other non-current assets	*9*	985	1,373	1,261
Deferred tax	*27*	1,937	1,747	2,177
Non-current assets		**49,238**	**47,617**	**49,786**
Inventories and work in progress	*10*	12,660	11,045	11,079
Trade accounts receivable	*11*	3,222	2,736	2,785
Income taxes		465	789	302
Other current assets	*12*	5,794	6,163	2,772
Cash and cash equivalents	*14*	9,135	7,951	3,806
Current assets		**31,276**	**28,684**	**20,744**
TOTAL ASSETS		**80,514**	**76,301**	**70,530**

Liabilities and equity *(EUR millions)*	*Notes*	**2018**	**2017** [(1)]	**2016** [(1)]
Share capital	*15.1*	51	51	51
Share premium account	*15.1*	442	442	442
Financière Agache treasury shares	*15.2*	(6)	(6)	(6)
Cumulative translation adjustment	*15.4*	233	139	394
Revaluation reserves		1,619	1,960	3,126
Other reserves		3,601	2,076	7,218
Net profit, Group share		2,499	1,990	1,346
Equity, Group share		**8,439**	**6,652**	**12,571**
Minority interests	*17*	22,397	20,241	21,254
Equity		**30,836**	**26,893**	**33,825**
Long-term borrowings	*18*	9,301	12,295	5,914
Non-current provisions	*19*	2,505	2,582	2,390
Deferred tax	*27*	4,603	4,549	4,877
Other non-current liabilities	*20*	10,042	9,870	8,509
Non-current liabilities		**26,451**	**29,296**	**21,690**
Short-term borrowings	*18*	11,396	9,555	5,142
Trade accounts payable	*21.1*	5,315	4,541	4,384
Income taxes		549	853	457
Current provisions	*19*	372	406	356
Other current liabilities	*21.2*	5,595	4,757	4,676
Current liabilities		**23,227**	**20,112**	**15,015**
TOTAL LIABILITIES AND EQUITY		**80,514**	**76,301**	**70,530**

(1) The financial statements as of December 31, 2017 and December 31, 2016 have been restated to reflect in particular the retrospective application with effect from January 1, 2016 of IFRS 9 Financial Instruments. See Note 1.2.

4. Consolidated statement of changes in equity

(EUR millions)	Number of shares	Share capital	Share premium account	Financière Agache treasury shares	Cumulative translation adjustment	Revaluation reserves: Available for sale financial assets	Revaluation reserves: Future cash flow hedges and cost of hedging	Revaluation reserves: Vineyard land	Revaluation reserves: Employee benefit commitments	Net profit and other reserves	Total equity: Group share	Total equity: Minority interests	Total equity: Total
Notes		*15.1*		*15.2*	*15.4*							*17*	
As of Dec. 31, 2015	**3,173,352**	**51**	**442**	**(6)**	**380**	**2,171**	**(2)**	**301**	**(35)**	**7,274**	**10,576**	**19,720**	**30,296**
Impact of changes in accounting standards (1)						(132)	(19)	-	-	150	(1)	(3)	(4)
As of January 1, 2016, after restatement	**3,173,352**	**51**	**442**	**(6)**	**380**	**2,039**	**(21)**	**301**	**(35)**	**7,424**	**10,575**	**19,717**	**30,292**
Gains and losses recognized in equity					10	836	(15)	36	(18)	142	991	74	1,065
Net profit										1,346	1,346	3,348	4,694
Comprehensive income					**10**	**836**	**(15)**	**36**	**(18)**	**1,488**	**2,337**	**3,422**	**5,759**
Stock option plan-related expenses										19	19	32	51
(Acquisition)/disposal of treasury shares				-						-	-	-	-
Capital increase in subsidiaries										-	-	41	41
Interim and final dividends paid										(82)	(82)	(1,498)	(1,580)
Changes in control of consolidated entities										(2)	(2)	19	17
Acquisition and disposal of minority interests' shares					4	-	-	4	(1)	(301)	(294)	(376)	(670)
Purchase commitments for minority interests' shares										18	18	(103)	(85)
As of Dec. 31, 2016	**3,173,352**	**51**	**442**	**(6)**	**394**	**2,875**	**(36)**	**341**	**(54)**	**8,564**	**12,571**	**21,254**	**33,825**
Gains and losses recognized in equity					(322)	(1,368)	77	14	11	2,221	633	(442)	191
Net profit					-	-	-	-	-	1,990	1,990	3,774	5,764
Comprehensive income					**(322)**	**(1,368)**	**77**	**14**	**11**	**4,211**	**2,623**	**3,332**	**5,955**
Stock option plan-related expenses										29	29	44	73
(Acquisition)/disposal of treasury shares				-						-	-	-	-
Capital increase in subsidiaries										-	-	31	31
Interim and final dividends paid										(317)	(317)	(1,556)	(1,873)
Changes in control of consolidated entities										(2)	(2)	101	99
Impact of the sale of Christian Dior Couture to LVMH				-	-	-	-	-	-	(464)	(464)	316	(148)
Impact of the public offer for Christian Dior shares				-	64	-	9	90	(11)	(6,972)	(6,820)	(2,515)	(9,335)
Acquisition and disposal of minority interests' shares				-	3	-	2	9	1	(943)	(928)	(386)	(1,314)
Purchase commitments for minority interests' shares				-	-	-	-	-	-	(40)	(40)	(380)	(420)
As of Dec. 31, 2017	**3,173,352**	**51**	**442**	**(6)**	**139**	**1,507**	**52**	**454**	**(53)**	**4,066**	**6,652**	**20,241**	**26,893**
Gains and losses recognized in equity					93	(244)	(108)	1	8	236	(14)	28	14
Net profit					-	-	-	-	-	2,499	2,499	4,406	6,905
Comprehensive income					**93**	**(244)**	**(108)**	**1**	**8**	**2,735**	**2,485**	**4,434**	**6,919**
Stock option plan-related expenses										40	40	47	87
(Acquisition)/disposal of treasury shares				-						-	-	-	-
Capital increase in subsidiaries										-	-	50	50
Interim and final dividends paid										(222)	(222)	(1,942)	(2,164)
Changes in control of consolidated entities										(4)	(4)	36	32
Acquisition and disposal of minority interests' shares					1	-	-	2	-	(470)	(467)	(247)	(714)
Purchase commitments for minority interests' shares										(45)	(45)	(222)	(267)
AS OF DEC. 31, 2018	**3,173,352**	**51**	**442**	**(6)**	**233**	**1,263**	**(56)**	**457**	**(45)**	**6,100**	**8,439**	**22,397**	**30,836**

(1) The financial statements as of December 31, 2017 and December 31, 2016 have been restated to reflect in particular the retrospective application with effect from January 1, 2016 of IFRS 9 Financial Instruments. See Note 1.2.

5. Consolidated cash flow statement

(EUR millions)	*Notes*	2018	2017 (1)	2016 (1)
I - OPERATING ACTIVITIES AND OPERATING INVESTMENTS				
Operating profit		9,874	8,170	7,125
Adjustment for income/(loss) and dividends from commercial joint ventures and associates	7	5	22	14
Net increase in depreciation, amortization and provisions		2,278	2,495	2,309
Other computed expenses		(135)	(25)	(167)
Other adjustments		(82)	(119)	(163)
Cash from operations before changes in working capital		**11,940**	**10,543**	**9,118**
Cost of net financial debt: Interest paid		(191)	(161)	(181)
Tax paid on operating activities		(2,301)	(2,858)	(2,004)
Net cash from operating activities before changes in working capital		**9,448**	**7,524**	**6,933**
Change in working capital	14.2	(1,105)	(521)	(584)
Net cash from operating activities		**8,343**	**7,003**	**6,349**
Operating investments	14.3	(3,038)	(2,516)	(2,438)
Net cash from operating activities and operating investments (free cash flow)		**5,305**	**4,487**	**3,911**
II – FINANCIAL INVESTMENTS				
Purchase of non-current available for sale financial assets (a)	8	(485)	(127)	(41)
Proceeds from sale of non-current available for sale financial assets	8	72	144 (b)	262
Dividends received	8	38	47	36
Tax paid related to non-current available for sale financial assets and consolidated investments		(145)	(9)	(475)
Impact of purchase and sale of consolidated investments	2.4	(17)	(524)	310
Net cash from/(used in) financial investments		**(537)**	**(469)**	**92**
III – TRANSACTIONS RELATING TO EQUITY				
Capital increases of subsidiaries subscribed by minority interests	17	41	31	42
Interim and final dividends paid by Financière Agache SA	15.3	(222)	(317)	(82)
Tax paid related to interim and final dividends paid		(68)	475	(189)
Interim and final dividends paid to minority interests in consolidated subsidiaries	17	(1,936)	(1,557)	(1,491)
Purchase and proceeds from sale of minority interests	2.4	(921)	(7,607) (c)	(687)
Net cash from/(used in) transactions relating to equity		**(3,106)**	**(8,975)**	**(2,407)**
Change in cash before financing activities		**1,662**	**(4,957)**	**1,596**
IV – FINANCING ACTIVITIES				
Proceeds from borrowings	18.1	1,554	14,069	1,751
Repayment of borrowings	18.1	(2,676)	(2,981)	(3,191)
Loans to and receivables from affiliated companies	18.1	151	211	(52)
Purchase and proceeds from sale of current available for sale financial assets (a)	13	348	(1,839)	(130)
Net cash from/(used in) financing activities	14.2	**(623)**	**9,460**	**(1,622)**
V – EFFECT OF EXCHANGE RATE CHANGES		**67**	**(261)**	**52**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (I+II+III+IV+V)		**1,106**	**4,242**	**26**
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	14.1	**7,831**	**3,589**	**3,563**
CASH AND CASH EQUIVALENTS AT END OF PERIOD	14.1	**8,937**	**7,831**	**3,589**
TOTAL TAX PAID		**(2,514)**	**(2,392)**	**(2,668)**

(a) The cash impact of non-current available for sale financial assets used to hedge net financial debt (see Note 18) is presented under "IV. Financing activities" as "Purchase and proceeds from sale of current available for sale financial assets".
(b) The Hermès International shares were exchanged for Christian Dior shares without any impact on cash.
(c) Without taking into account the 6,980,933 Hermès International shares tendered under the public offer by Semyrhamis for Christian Dior.

(1) The financial statements as of December 31, 2017 and December 31, 2016 have been restated to reflect in particular the retrospective application with effect from January 1, 2016 of IFRS 9 Financial Instruments. See Note 1.2.

Notes to the consolidated financial statements

The notes to the financial statements as of December 31, 2017 and December 31, 2016 have been restated to reflect in particular the retrospective application with effect from July 1, 2016 of IFRS 9 Financial Instruments. See Note 1.2.

6. Notes to the consolidated financial statements

NOTE 1 – ACCOUNTING POLICIES

1.1. General framework and environment

The consolidated financial statements for fiscal year 2018 were established in accordance with the international accounting standards and interpretations (IAS/IFRS) adopted by the European Union and applicable as of December 31, 2018. These standards and interpretations have been applied consistently to the fiscal years presented. The consolidated financial statements for fiscal year 2018 were approved by the Board of Directors on April 26, 2019.

1.2. Changes in the accounting framework applicable to the Group

Standards, amendments and interpretations for which application became mandatory in 2018

IFRS 15 on revenue recognition was applied prospectively as of January 1, 2018. Its application did not have any significant impact on the Group's financial statements, due to the nature of the Group's business activities. Pursuant to IFRS 15, the provision for product returns – which was previously deducted from trade accounts receivable (see Note 1.25 to the 2017 consolidated financial statements) – is now presented within "Other current liabilities" (see Note 21.2).

IFRS 9 on financial instruments was applied retrospectively with effect from January 1, 2016. The Group's financial statements for the comparative periods, including the notes to these financial statements, were restated. The impact of the application of IFRS 9 within the Group is mainly related to the change in the method used to recognize the proceeds from the sale of available for sale financial assets, the change in market value of such assets and the cost of the ineffective portion of hedges (option premiums and forward points associated with forward contracts).

The cost of hedging is now recognized as follows:

- For foreign exchange hedges that are commercial in nature, the changes before maturity in the value of forward points associated with forward contracts and in the time value component of options are included in gains and losses recognized directly in equity. The cost of the forward contracts (forward points) and of the options (premiums) is transferred to "Other financial income and expenses" upon realization of the hedged transaction;
- For hedges that are financial in nature or tied to the Group's investment portfolio, expenses and income arising from discounts or premiums are recognized in "Borrowing costs" on a pro rata basis over the term of the hedging instruments. The cash flow impact of expenses and income arising from forward points is presented under "Cost of net financial debt: Interest paid". The difference between the amounts recognized in "Net financial income/(expense)" and the change in the market value of forward points is included in gains and losses recognized in equity. The market value of hedges that are financial in nature or tied to the Group's investment portfolio are now presented under "Net financial debt" (see Note 18).

The LVMH group has opted to present the change in market value of available for sale financial assets under "Net financial income/(expense)" (within "Other financial income and expenses") for all shares held in the portfolio during the reported periods.

At its level, Financière Agache integrates data from the LVMH group without restatement. As it is authorized to do under IFRS 9, Financière Agache has opted to present the available for sale financial assets of consolidated subsidiaries outside the LVMH scope within equity (under "Revaluation reserves" for available for sale financial assets). Nevertheless, Financière Agache reserves the right to choose, for each accounting item, the method for recognizing their change in market value: either within "Net financial income/(expense)" or directly in equity for its future available for sale financial assets.

The following tables present the impact of the retrospective application of IFRS 9 on the Group's financial statements as of January 1, 2016; December 31, 2016; and December 31, 2017.

Impact of the application of IFRS 9 on the balance sheet

(EUR millions)	**Jan. 1, 2016**	**Dec. 31, 2016**	**Dec. 31, 2017**
Deferred tax	(4)	(5)	(2)
Total assets	**(4)**	**(5)**	**(2)**
Revaluation reserves, of which:	(151)	(194)	(199)
Available for sale financial assets	(132)	(155)	(178)
Ineffective portion of hedges	(19)	(39)	(21)
Other reserves	150	192	197
Equity, Group share	**(1)**	**(2)**	**(2)**
Minority interests	(3)	(3)	(3)
Equity	**(4)**	**(5)**	**(5)**
Deferred tax	-	-	3
TOTAL LIABILITIES AND EQUITY	**(4)**	**(5)**	**(2)**

Impact of the application of IFRS 9 on the income statement

(EUR millions)	**Dec. 31, 2016**	**Dec. 31, 2017**
Borrowing costs	(66)	(58)
Income from cash, cash equivalents and current available for sale financial assets	-	-
Fair value adjustment of borrowings and interest rate hedges	16	(16)
Cost of net financial debt	**(50)**	**(74)**
Income/(loss) from non-operating joint ventures and associates	**(62)**	**2**
Dividends received from non-current available for sale financial assets	-	-
Ineffective portion of foreign exchange derivatives	143	(44)
Net gain/(loss) related to available for sale financial assets and other financial instruments	(20)	(2,120)
Other items, net	-	-
Other financial income and expenses	**123**	**(2,164)**
Net financial income/(expense)	**11**	**(2,236)**
Income taxes	(23)	19
Net profit before minority interests	**(12)**	**(2,217)**
Minority interests	88	20
NET PROFIT, GROUP SHARE	**(100)**	**(2,237)**

Impact of the application of IFRS 9 on the consolidated statement of comprehensive gains and losses

(EUR millions)	Dec. 31, 2016	Dec. 31, 2017
Net profit before minority interests	**(12)**	**(2,217)**
Change in value of available for sale financial assets	(1,067)	(1,027)
Amounts transferred to income statement	140	2,281
Tax impact	28	25
	(899)	**1,279**
Change in value of the ineffective portion of hedging instruments	(273)	(91)
Amounts transferred to income statement	180	210
Tax impact	24	(35)
	(69)	**84**
Gains and losses recognized in equity, transferable to income statement	**(968)**	**1,363**
Change in value of available for sale financial assets	1,008	820
Tax impact	(29)	32
Changes related to available for sale financial assets	**979**	**852**
Gains and losses recognized in equity and not transferable to income statement	**979**	**852**
Comprehensive income	**(1)**	**(2)**
Minority interests	-	(4)
COMPREHENSIVE INCOME, GROUP SHARE	**(1)**	**(6)**

Impact of the application of IFRS 9 on the consolidated cash flow statement

(EUR millions)	Dec. 31, 2016	Dec. 31, 2017
Cost of net financial debt: Interest paid	(63)	(58)
Net cash from operating activities and operating investments (free cash flow)	**(63)**	**(58)**
Net cash from/(used in) financing activities	**(36)**	**187**
Effect of exchange rate changes	**99**	**(129)**

Other changes in the accounting framework and standards for which application will become mandatory later than January 1, 2019

At the end of 2016, the Group launched its project for the implementation of IFRS 16 relating to leases, which applies to accounting periods beginning on or after January 1, 2019. When entering into a lease involving fixed payments, this standard requires that a liability be recognized in the balance sheet, measured at the discounted present value of future lease payments and offset against a right-of-use asset amortized over the lease term.

IFRS 16 will be applied as of January 1, 2019, using what is known as the “modified retrospective” transition method, under which a liability is recognized at the transition date for an amount equal to the present value of the residual lease payments alone, offset against a right-of-use asset adjusted for the amount of prepaid lease payments or within accrued expenses; all the impacts of the transition will be deducted from equity.

The standard provides for various simplification measures during the transition phase; in particular, the Group has opted to apply the measures allowing it to exclude leases with a residual term of less than twelve months, exclude leases of low-value assets, continue applying the same treatment to leases that qualify as finance leases under IAS 17, and not capitalize costs directly related to signing leases.

The amount of the liability depends quite heavily on the assumptions used for the lease term and discount rate. The lease term used to calculate the liability is the term of the initially negotiated lease, not taking into account any early termination or extension options, except in special circumstances. The discount rate is determined in the same way as the total of the risk-free rate for the lease currency and term, and the Group’s credit risk for this same reference currency and term.

The Group has implemented a dedicated IT solution to gather lease data and run the calculations required by the standard. The Group is in the process of completing its inventory of leases and gathering the information required to calculate the liability at the transition date. The impact on the balance sheet of the initial application of IFRS 16 will be between 11 and 13 billion euros, compared with 12.6 billion euros in lease commitments as of December 31, 2018 (see Note 30). Most leases are related to the Group's retail premises. Such leases are actively managed and directly linked to the conduct of Maisons' business and their distribution strategy.

If the modified retrospective transition method is applied, the standard prohibits the restatement of comparative fiscal years in the financial statements. Nevertheless, the Group plans to prepare restated data for 2018 for its financial communication requirements. Moreover, given the importance of leases to the Group's activities, and in order to present consistent performance indicators, independently of the fixed or variable nature of lease payments, specific indicators will be used for internal performance monitoring requirements and financial communication purposes; in particular, capitalized fixed lease payments will be deducted in their entirety from cash flow in order to calculate the aggregate entitled "Operating free cash flow". In correlation, the liability for capitalized leases will be excluded from the definition of net financial debt.

The impact of applying IFRS 16 on profit from recurring operations and net profit will not be significant.

The impact of the application of IFRIC 23 Uncertainty over Income Tax Treatments, with effect from January 1, 2019, is being assessed.

The Group is following the ongoing discussions held at IFRIC and IASB related to the recognition of purchase commitments for minority interests' shares and changes in their amount. See Note 1.12 for a description of the recognition method applied by LVMH to these commitments.

1.3. First-time adoption of IFRS

The first accounts prepared by the Group in accordance with IFRS were the financial statements for the year ended December 31, 2005, with a transition date of January 1, 2004. IFRS 1 allowed for exceptions to the retrospective application of IFRS at the transition date. The procedures implemented by the Group with respect to these exceptions include the following:

- Business combinations: The exemption from retrospective application was not applied. The Financière Agache group has retrospectively restated acquisitions made since 1988, the date of the initial consolidation of LVMH. IAS 36 Impairment of Assets and IAS 38 Intangible Assets have been applied retrospectively since that date;
- Foreign currency translation of the financial statements of subsidiaries outside the eurozone: Translation reserves relating to the consolidation of subsidiaries that prepare their accounts in foreign currency were reset to zero as of January 1, 2004 and offset against "Other reserves".

1.4. Presentation of the financial statements

Definitions of "Profit from recurring operations" and "Other operating income and expenses"

The Group's main business is the management and development of its brands and trade names. "Profit from recurring operations" is derived from these activities, whether they are recurring or non-recurring, core or incidental transactions.

"Other operating income and expenses" comprises income statement items, which – due to their nature, amount or frequency – may not be considered inherent to the Group's recurring operations or its profit from recurring operations. This caption reflects in particular the impact of changes in the scope of consolidation, impairment of goodwill, and impairment and amortization of brands and trade names.

It also includes any significant amounts relating to the impact of certain unusual transactions, such as gains or losses arising on the disposal of fixed assets, restructuring costs, costs in respect of disputes, or any other non-recurring income or expense which may otherwise distort the comparability of profit from recurring operations from one period to the next.

Cash flow statement

Net cash from operating activities is determined on the basis of operating profit, adjusted for non-cash transactions. In addition:

- dividends received are presented according to the nature of the underlying investments; thus, dividends from commercial joint ventures and associates are presented in "Net cash from operating activities", while dividends from non-operating joint ventures and associates and from unconsolidated entities are presented in "Net cash from financial investments";
- tax paid is presented according to the nature of the transaction from which it arises: in "Net cash from operating activities" for the portion attributable to operating transactions; in "Net cash from financial investments" for the portion attributable to transactions in available for sale financial assets, notably tax paid on gains from their sale; in "Net cash from transactions relating to equity" for the portion attributable to transactions in equity, notably distribution taxes arising on the payment of dividends.

1.5. Use of estimates

For the purpose of preparing the consolidated financial statements, the measurement of certain balance sheet and income statement items requires the use of hypotheses, estimates or other forms of judgment. This is particularly true of the valuation of intangible assets (see Note 5), the measurement of purchase commitments for minority interests' shares (see Notes 1.12 and 20), and the determination of the amount of provisions for contingencies and losses (see Note 19) or for impairment of inventories (see Notes 1.16 and 10) and, if applicable, deferred tax assets (see Note 27). Such hypotheses, estimates or other forms of judgment made on the basis of the information available or the situation prevailing at the date at which the financial statements are prepared may subsequently prove different from actual events.

1.6. Methods of consolidation

The subsidiaries in which the Group holds a direct or indirect de facto or de jure controlling interest are fully consolidated.

Jointly controlled companies and companies where the Group has significant influence but no controlling interest are accounted for under the equity method. Although jointly controlled, those entities are fully integrated within the Group's operating activities if their businesses are related to those of the Group. Financière Agache discloses their net profit – as well as that of entities using the equity method (see Note 7) – on a separate line, which forms part of profit from recurring operations.

Net profit for non-operating joint ventures and associates is disclosed on a specific line within "Net financial income/(expense)".

The assets, liabilities, income and expenses of the Wines and Spirits distribution subsidiaries held jointly with the Diageo group are consolidated only in proportion to the Group's share of operations (see Note 1.25).

The consolidation on an individual or collective basis of companies that are not consolidated (see "Companies not included in the scope of consolidation") would not have a significant impact on the Group's main aggregates.

1.7. Foreign currency translation of the financial statements of entities outside the eurozone

The consolidated financial statements are presented in euros; the financial statements of entities presented in a different functional currency are translated into euros:

- at the period-end exchange rates for balance sheet items;
- at the average rates for the period for income statement items.

Translation adjustments arising from the application of these rates are recorded in equity under "Cumulative translation adjustment".

1.8. Foreign currency transactions and hedging of exchange rate risks

Transactions of consolidated companies denominated in a currency other than their functional currencies are translated to their functional currencies at the exchange rates prevailing at the transaction dates.

Accounts receivable, accounts payable and debts denominated in currencies other than the entities' functional currencies are translated at the applicable exchange rates at the fiscal year-end. Unrealized gains and losses resulting from this translation are recognized:

- within "Cost of sales" for commercial transactions;
- within "Net financial income/(expense)" for financial transactions.

Foreign exchange gains and losses arising from the translation or elimination of intra-Group transactions or receivables and payables denominated in currencies other than the entity's functional currency are recorded in the income statement unless they relate to long-term intra-Group financing transactions, which can be considered as transactions relating to equity. In the latter case, translation adjustments are recorded in equity under "Cumulative translation adjustment".

Derivatives used to hedge commercial, financial or investment transactions are recognized in the balance sheet at their market value (see Note 1.9) at the balance sheet date. Changes in the value of the effective portions of these derivatives are recognized as follows:

- for hedges that are commercial in nature:
  - within "Cost of sales" for hedges of receivables and payables recognized in the balance sheet at the end of the period,
  - within equity under "Revaluation reserves" for hedges of future cash flows; this amount is transferred to cost of sales upon recognition of the hedged assets and liabilities;
- for hedges that are tied to the Group's investment portfolio (hedging the net worth of subsidiaries whose functional currency is not the euro), within equity under "Cumulative translation adjustment"; this amount is transferred to the income statement upon the sale or liquidation (whether partial or total) of the subsidiary whose net worth is hedged;
- for hedges that are financial in nature, within "Net financial income/(expense)", under "Other financial income and expenses".

Changes in the value of these derivatives related to forward points associated with forward contracts, as well as in the time value component of options, are recognized as follows:

- for hedges that are commercial in nature, within equity under "Revaluation reserves". The cost of the forward contracts (forward points) and of the options (premiums) is transferred to "Other financial income and expenses" upon realization of the hedged transaction;
- for hedges that are tied to the Group's investment portfolio or financial in nature, expenses and income arising from discounts or premiums are recognized in "Borrowing costs" on a pro rata basis over the term of the hedging instruments. The difference between the amounts recognized in "Net financial income/(expense)" and the change in the value of forward points is recognized in equity under "Revaluation reserves".

Market value changes of derivatives not designated as hedges are recorded within "Net financial income/(expense)".

See also Note 1.21 for the definition of the concepts of effective and ineffective portions, and Note 1.2 on the impact of the initial retrospective application as of January 1, 2016 of IFRS 9 Financial Instruments.

1.9. Fair value measurement

Fair value (or market value) is the price that would be obtained from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants.

The assets and liabilities measured at fair value in the balance sheet are as follows:

	Approaches to determining fair value	Amounts recorded at balance sheet date
Vineyard land	Based on recent transactions in similar assets. See Note 1.13.	Note 6
Grape harvests	Based on purchase prices for equivalent grapes. See Note 1.16.	Note 10
Derivatives	Based on market data and according to commonly used valuation models. See Note 1.21.	Note 22
Borrowings hedged against changes in value due to interest rate fluctuations	Based on market data and according to commonly used valuation models. See Note 1.20.	Note 18
Liabilities in respect of purchase commitments for minority interests' shares priced according to fair value	Generally based on the market multiples of comparable companies. See Note 1.12.	Note 20
Available for sale financial assets	Quoted investments: price quotations at the close of trading on the balance sheet date. Unquoted investments: estimated net realizable value, either according to formulas based on market data or based on private quotations. See Note 1.15.	Note 8, Note 13
Cash and cash equivalents (SICAV and FCP funds)	Based on the liquidation value at the balance sheet date. See Note 1.18.	Note 14

No other assets or liabilities have been remeasured at market value at the balance sheet date.

1.10. Brands and other intangible assets

Only acquired brands and trade names that are well known and individually identifiable are recorded as assets at their market value as of the date of acquisition.

Brands and trade names are chiefly valued using the forecast discounted cash flow method, or based on comparable transactions (i.e. using the revenue and net profit coefficients employed for recent transactions involving similar brands) or stock market multiples observed for related businesses. Other complementary methods may also be employed: the relief from royalty method, involving equating a brand's value with the present value of the royalties required to be paid for its use; the margin differential method, applicable when a measurable difference can be identified in the amount of revenue generated by a branded product in comparison with a similar unbranded product; and finally the equivalent brand reconstitution method involving, in particular, estimation of the amount of advertising and promotion expenses required to generate a similar brand.

Costs incurred in creating a new brand or developing an existing brand are expensed.

Brands, trade names and other intangible assets with finite useful lives are amortized over their estimated useful lives. The classification of a brand or trade name as an asset of definite or indefinite useful life is generally based on the following criteria:

- the brand or trade name's overall positioning in its market expressed in terms of volume of activity, international presence and reputation;
- its expected long-term profitability;
- its degree of exposure to changes in the economic environment;
- any major event within its business segment liable to compromise its future development;
- its age.

Amortizable lives of brands and trade names with definite useful lives range from 5 to 20 years, depending on their estimated period of use.

Impairment tests are carried out for brands, trade names and other intangible assets using the methodology described in Note 1.14.

Research expenditure is not capitalized. New product development expenditure is not capitalized unless the final decision has been made to launch the product.

Intangible assets other than brands and trade names are amortized over the following periods:

- leasehold rights, key money: Based on market conditions, generally over the lease term;
- rights attached to sponsorship agreements and media partnerships: Over the life of the agreements, depending on how the rights are used;
- development expenditure: Three years at most;
- software, websites: One to five years.

1.11. Changes in ownership interests in consolidated entities

When the Group takes de jure or de facto control of a business, its assets, liabilities and contingent liabilities are estimated at their market value as of the date when control is obtained; the difference between the cost of taking control and the Group's share of the market value of those assets, liabilities and contingent liabilities is recognized as goodwill.

The cost of taking control is the price paid by the Group in the context of an acquisition, or an estimate of this price if the transaction is carried out without any payment of cash, excluding acquisition costs, which are disclosed under "Other operating income and expenses".

The difference between the carrying amount of minority interests purchased after control is obtained and the price paid for their acquisition is deducted from equity.

Goodwill is accounted for in the functional currency of the acquired entity.

Goodwill is not amortized but is subject to annual impairment testing using the methodology described in Note 1.14. Any impairment expense recognized is included within "Other operating income and expenses".

1.12. Purchase commitments for minority interests' shares

The Group has granted put options to minority shareholders of certain fully consolidated subsidiaries.

Pending specific guidance from IFRSs regarding this issue, the Group recognizes these commitments as follows:

- the value of the commitment at the balance sheet date appears in "Other non-current liabilities", or in "Other current liabilities" if the minority shareholder has provided notice of exercising its put option before the fiscal year-end;
- the corresponding minority interests are cancelled;
- for commitments granted prior to January 1, 2010, the difference between the amount of the commitments and cancelled minority interests is maintained as an asset on the balance sheet under goodwill, as are subsequent changes in this difference. For commitments granted as from January 1, 2010, the difference between the amount of the commitments and minority interests is deducted from equity, under "Other reserves".

This recognition method has no effect on the presentation of minority interests within the income statement.

1.13. Property, plant and equipment

With the exception of vineyard land, the gross value of property, plant and equipment is stated at acquisition cost.

Any borrowing costs incurred prior to the placed-in-service date or during the construction period of assets are capitalized.

Vineyard land is recognized at the market value at the balance sheet date. This valuation is based on official published data for recent transactions in the same region. Any difference compared to historical cost is recognized within equity under "Revaluation reserves". If the market value falls below the acquisition cost, the resulting impairment is charged to the income statement.

Grapevine stocks and vineyards for champagnes, cognacs and other wines produced by the Group are considered biological assets as defined in IAS 41 Agriculture. As their market value differs little from their historical cost, such assets are not revalued.

Buildings mostly occupied by third parties are reported as investment property, at acquisition cost. Investment property is thus not remeasured at market value.

Assets acquired under finance leases are capitalized on the basis of the lower of their market value and the present value of future lease payments.

The depreciable amount of property, plant and equipment comprises the acquisition cost of their components less residual value, which corresponds to the estimated disposal price of the asset at the end of its useful life.

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives; the following useful lives are applied:

• buildings, including investment property	20 to 50 years;
• machinery and equipment	3 to 25 years;
• leasehold improvements	3 to 10 years;
• producing vineyards	18 to 25 years.

Expenses for maintenance and repairs are charged to the income statement as incurred.

1.14. Impairment testing of fixed assets

Intangible and tangible fixed assets are subject to impairment testing whenever there is any indication that an asset may be impaired (particularly following major changes in the asset's operating conditions), and in any event at least annually in the case of intangible assets with indefinite useful lives (mainly brands, trade names and goodwill). When the carrying amount of assets with indefinite useful lives is greater than the higher of their value in use or market value, the resulting impairment loss is recognized within "Other operating income and expenses", allocated on a priority basis to any existing goodwill.

Value in use is based on the present value of the cash flows expected to be generated by these assets. Market value is estimated by comparison with recent similar transactions or on the basis of valuations performed by independent experts for the purposes of a disposal transaction.

Cash flows are forecast at Group level for each business segment, defined as one or several brands or trade names under the responsibility of a dedicated management team. Smaller-scale cash-generating units, such as a group of stores, may be distinguished within a particular business segment.

The data used in the forecast discounted cash flow method comes from annual budgets and multi-year business plans prepared by the management of the business segments concerned. Detailed forecasts cover a five-year period, which may be extended for brands undergoing strategic repositioning or whose production cycle exceeds five years. An estimated terminal value is added to the value resulting from discounted forecast cash flows, which corresponds to the capitalization in perpetuity of cash flows most often arising from the last year of the plan. Discount rates are set for each business group with reference to companies engaged in comparable businesses. Forecast cash flows are discounted on the basis of the rate of return to be expected by an investor in the applicable business and an assessment of the risk premium associated with that business. When several forecast scenarios are developed, the probability of occurrence of each scenario is assessed.

1.15. Available for sale financial assets

Available for sale financial assets are classified as current or non-current based on their nature.

Non-current available for sale financial assets comprise strategic and non-strategic investments whose estimated period and form of ownership justify such classification.

Current available for sale financial assets (presented in "Other current assets"; see Note 12) include temporary investments in shares, shares of SICAVs, FCPs and other mutual funds, excluding investments made as part of day-to-day cash management, which are accounted for as "Cash and cash equivalents" (see Note 1.18).

Available for sale financial assets are measured at their listed value at the fiscal year-end date in the case of quoted investments, and in the case of unquoted investments at their estimated net realizable value, assessed either according to formulas based on market quotations or based on private quotations at the fiscal year-end date.

Positive or negative changes in value are recognized by the LVMH group under "Net financial income/(expense)" (within "Other financial income and expenses") for all shares held in the portfolio during the reported periods. See Note 1.2 on the impact of the initial retrospective application as of January 1, 2016 of IFRS 9 Financial Instruments.

At its level, Financière Agache integrates data from the LVMH group without restatement. As it is authorized to do under IFRS 9, Financière Agache has opted to present the available for sale financial assets of consolidated subsidiaries outside the LVMH scope within equity (under "Revaluation reserves" for available for sale financial assets). Nevertheless, Financière Agache reserves the right to choose, for each accounting item, the method for recognizing their change in market value: either within "Net financial income/(expense)" or directly in equity for its future available for sale financial assets.

1.16. Inventories and work in progress

Inventories other than wine produced by the Group are recorded at the lower of cost (excluding interest expense) and net realizable value; cost comprises manufacturing cost (finished goods) or purchase price, plus incidental costs (raw materials, merchandise).

Wine produced by the Group, including champagne, is measured on the basis of the applicable harvest market value, which is determined by reference to the average purchase price of equivalent grapes, as if the grapes harvested had been purchased from third parties. Until the date of the harvest, the value of grapes is calculated on a pro rata basis, in line with the estimated yield and market value.

Inventories are valued using either the weighted average cost or the FIFO method, depending on the type of business.

Due to the length of the aging process required for champagne and spirits (cognac, whisky), the holding period for these inventories generally exceeds one year. However, in accordance with industry practices, these inventories are classified as current assets.

Provisions for impairment of inventories are chiefly recognized for businesses other than Wines and Spirits. They are generally required because of product obsolescence (end of season or collection, expiration date approaching, etc.) or lack of sales prospects.

1.17. Trade accounts receivable, loans and other receivables

Trade accounts receivable, loans and other receivables are recorded at amortized cost, which corresponds to their face value. Impairment is recognized for the portion of loans and receivables not covered by credit insurance when such receivables are recorded, in the amount of the losses expected upon maturity. This reflects the probability of counterparty default and the expected loss rate, measured using historical statistical data, information provided by credit bureaus, or ratings by credit rating agencies, depending on the specific case.

The amount of long-term loans and receivables (i.e. those falling due in more than one year) is subject to discounting, the effects of which are recognized under "Net financial income/(expense)", using the effective interest method.

1.18. Cash and cash equivalents

"Cash and cash equivalents" comprise cash and highly liquid money-market investments subject to an insignificant risk of changes in value over time.

Money-market investments are measured at their market value, based on price quotations at the close of trading and the exchange rate prevailing at the fiscal year-end date, with any changes in value recognized as part of "Net financial income/(expense)".

1.19. Provisions

A provision is recognized whenever an obligation exists towards a third party resulting in a probable disbursement for the Group, the amount of which may be reliably estimated. See also Notes 1.23 and 19.

If the date at which this obligation is to be discharged is in more than one year, the provision amount is discounted, the effects of which are recognized in "Net financial income/(expense)" using the effective interest method.

1.20. Borrowings

Borrowings are measured at amortized cost, i.e. nominal value net of issue premiums and issuance costs, which are charged over time to "Net financial income/(expense)" using the effective interest method.

In the case of hedging against fluctuations in the value of borrowings resulting from changes in interest rates, both the hedged amount of borrowings and the related hedging instruments are measured at their market value at the balance sheet date, with any changes in those values recognized within "Net financial income/(expense)" under "Fair value adjustment of borrowings and interest rate hedges". See Note 1.9 on the measurement of hedged borrowings at market value. Interest income and expenses related to hedging instruments are recognized within "Net financial income/(expense)" under "Borrowing costs".

In the case of hedging against fluctuations in future interest payments, the related borrowings remain measured at their amortized cost while any changes in value of the effective hedge portions are taken to equity as part of "Revaluation reserves".

Changes in value of non-hedging derivatives, and of the ineffective portions of hedges, are recognized within "Net financial income/(expense)".

Net financial debt comprises short- and long-term borrowings, the market value at the balance sheet date of interest rate derivatives, less the amount at the balance sheet date of non-current available for sale financial assets used to hedge financial debt, current available for sale financial assets, cash and cash equivalents, in addition to the market value at that date of foreign exchange derivatives related to any of the aforementioned items.

See also Note 1.2 on the impact of the initial retrospective application as of January 1, 2016 of IFRS 9 Financial Instruments.

1.21. Derivatives

The Group enters into derivative transactions as part of its strategy for hedging foreign exchange, interest rate and gold price risks.

To hedge against commercial, financial and investment foreign exchange risk, the Group uses options, forward contracts, foreign exchange swaps and cross-currency swaps. The time value of options, the forward point component of forward contracts and foreign exchange swaps, as well as the foreign currency basis spread component of cross-currency swaps are systematically excluded from the hedge relation. Consequently, only the intrinsic value of the instruments is considered a hedging instrument. Regarding hedged items (future foreign currency cash flows, commercial or financial liabilities and accounts receivable in foreign currencies, subsidiaries' equity denominated in a functional currency other than the euro), only their change in value in respect of foreign exchange risk is considered a hedged item. As such, aligning the hedging instruments' main features (nominal values, currencies, maturities) with those of the hedged items makes it possible to perfectly offset changes in value.

Derivatives are recognized in the balance sheet at their market value at the balance sheet date. Changes in the value of derivatives are accounted for as described in Note 1.8 for foreign exchange hedges, and as described in Note 1.20 for interest rate hedges.

Market value is based on market data and commonly used valuation models.

Derivatives with maturities in excess of twelve months are disclosed as non-current assets and liabilities.

1.22. Financière Agache, Christian Dior and LVMH treasury shares

Financière Agache treasury shares

Financière Agache shares held by the Group are measured at their acquisition cost and recognized as a deduction from consolidated equity, irrespective of the purpose for which they are held.

In the event of disposal, the cost of the shares disposed of is determined using the FIFO method. Gains and losses on disposal are taken directly to equity.

Christian Dior and LVMH treasury shares

Purchases and sales by Christian Dior and LVMH of their own shares, as well as LVMH SE capital increases reserved for recipients of share subscription options, resulting in changes in the ownership interests held by the Financière Agache group in Christian Dior and in LVMH, are accounted for in the consolidated financial statements of the Financière Agache group as changes in ownership interests in consolidated entities.

As from January 1, 2010, in accordance with the revised version of IFRS 3, changes in the Financière Agache group's ownership interests in Christian Dior and in LVMH have been taken to equity. As this standard is applied prospectively, goodwill recognized until December 31, 2009 has been maintained as an asset on the balance sheet.

1.23. Pensions, contribution to medical costs and other employee benefit commitments

When plans related to retirement bonuses, pensions, contribution to medical costs and other commitments entail the payment by the Group of contributions to third-party organizations that assume sole responsibility for subsequently paying such retirement benefits, pensions or contributions to medical costs, these contributions are expensed in the fiscal year in which they fall due, with no liability recorded on the balance sheet.

When the payment of retirement bonuses, pensions, contributions to medical costs and other commitments is to be borne by the Group, a provision is recorded in the balance sheet in the amount of the Group's corresponding actuarial commitment. Changes in this provision are recognized as follows:

- the portion related to the cost of services rendered by employees and net interest for the fiscal year is recognized in profit from recurring operations for the fiscal year;
- the portion related to changes in actuarial assumptions and to differences between projected and actual data (experience adjustments) is recognized in gains and losses taken to equity.

If this commitment is partially or fully funded by payments made by the Group to external financial organizations, these dedicated funds are deducted from the actuarial commitment recorded in the balance sheet.

The actuarial commitment is calculated based on assessments that are specifically designed for the country and the Group company concerned. In particular, these assessments include assumptions regarding discount rates, salary increases, inflation, life expectancy and staff turnover.

1.24. Current and deferred tax

The tax expense comprises current tax payable by consolidated companies and deferred tax resulting from temporary differences.

Deferred tax is recognized in respect of temporary differences arising between the value of assets and liabilities for purposes of consolidation and the value resulting from the application of tax regulations.

Deferred tax is measured on the basis of the income tax rates enacted at the balance sheet date; the effect of changes in rates is recognized during the periods in which changes are enacted.

Future tax savings from tax losses carried forward are recorded as deferred tax assets on the balance sheet and impaired if they are deemed not recoverable; only amounts for which future use is deemed probable are recognized.

Deferred tax assets and liabilities are not discounted.

Taxes payable in respect of the distribution of retained earnings of subsidiaries give rise to provisions if distribution is deemed probable.

1.25. Revenue recognition

Definition of revenue

Revenue mainly comprises retail sale within the Group's store network (including e-commerce websites) and sales through agents and distributors. Sales made in stores owned by third parties are treated as retail transactions if the risks and rewards of ownership of the inventories are retained by the Group.

Direct sales to customers are made through retail stores in Fashion and Leather Goods and Selective Retailing, as well as certain Watches and Jewelry and Perfumes and Cosmetics brands. These sales are recognized at the time of purchase by retail customers.

Wholesale sales mainly concern the Wines and Spirits businesses, as well as certain Perfumes and Cosmetics and Watches and Jewelry brands. The Group recognizes revenue when title transfers to third-party customers.

Revenue includes shipment and transportation costs re-billed to customers only when these costs are included in products' selling prices as a lump sum.

Revenue is presented net of all forms of discount. In particular, payments made in order to have products referenced or, in accordance with agreements, to participate in advertising campaigns with the distributors, are deducted from related revenue.

Provisions for product returns

Perfumes and Cosmetics and, to a lesser extent, Fashion and Leather Goods and Watches and Jewelry companies may accept the return of unsold or outdated products from their customers and distributors.

Where this practice is applied, revenue is reduced by the estimated amount of such returns, and a provision is recognized within "Other current liabilities" (see Notes 1.2 and 21.2), along with a corresponding entry made to inventories. The estimated rate of returns is based on historical statistical data.

Businesses undertaken in partnership with Diageo

A significant proportion of revenue for the Group's Wines and Spirits businesses is generated within the framework of distribution agreements with Diageo, generally taking the form of shared entities which sell and deliver both groups' products to customers; the income statement and balance sheet of these entities is apportioned between the Group and Diageo based on distribution agreements. According to those agreements, the assets, liabilities, income and expenses of such entities are consolidated only in proportion to the Group's share of operations.

1.26. Advertising and promotion expenses

Advertising and promotion expenses include the costs of producing advertising media, purchasing media space, manufacturing samples and publishing catalogs, and in general, the cost of all activities designed to promote the Group's brands and products.

Advertising and promotion expenses are recorded within marketing and selling expenses upon receipt or production of goods or upon completion of services rendered.

1.27. Stock option and similar plans

For bonus share plans, the expected gain is calculated on the basis of the closing share price on the day before the Board of Directors' meeting at which the plan is instituted, less the amount of dividends expected to accrue during the vesting period.

A discount may be applied to the value of the bonus shares thus calculated to account for a period of non-transferability, where applicable.

For all plans, the amortization expense is apportioned on a straight-line basis in the income statement over the vesting period, with a corresponding impact on reserves in the balance sheet. For any cash-settled compensation plans index-linked to the change in the LVMH share price, the gain over the vesting period is estimated at each balance sheet date based on the LVMH share price at that date, and is charged to the income statement on a pro rata basis over the vesting period, with a corresponding balance sheet impact on provisions.

Between that date and the settlement date, the change in the expected gain resulting from the change in the LVMH share price is recorded in the income statement.

1.28. Earnings per share

Earnings per share are calculated based on the weighted average number of shares outstanding during the fiscal year, excluding treasury shares.

Where necessary, diluted earnings per share are calculated based on the weighted average number of shares before dilution. Dilutive instruments issued by subsidiaries are also taken into consideration for the purposes of determining the Group's share of net profit after dilution.

NOTE 2 – CHANGES IN OWNERSHIP INTERESTS IN CONSOLIDATED ENTITIES

2.1. Fiscal year 2018

In the second half of 2018, LVMH acquired the 20% stake in the share capital of Fresh that it did not own; the price paid generated the recognition of a final goodwill, previously recorded under "Goodwill arising on purchase commitments for minority interests' shares".

2.2. Fiscal year 2017

2.2.1. Fashion and Leather Goods

Rimowa

On January 23, 2017, pursuant to the transaction agreement announced on October 4, 2016, LVMH acquired an 80% stake in Rimowa – the luggage and leather goods maker founded in Cologne in 1898 and known for its innovative, high-quality luggage – with effect from January 2, 2017 and for consideration of 640 million euros. The 20% of the share capital that has not been acquired is covered by a put option granted by LVMH, exercisable from 2020. The 71 million euro difference in value between the purchase commitment (recorded in "Other non-current liabilities"; see Note 20) and minority interests was deducted from consolidated reserves. Rimowa has been fully consolidated by LVMH within the Fashion and Leather Goods business group since January 2017.

The following table details the final allocation of the purchase price paid by LVMH:

(EUR millions)	**Final purchase price allocation**
Brand	475
Intangible assets and property, plant and equipment	145
Other non-current assets	5
Non-current provisions	(31)
Current assets	119
Current liabilities	(62)
Net financial debt	(57)
Deferred tax	(150)
Net assets acquired	**444**
Minority interests (20%)	(89)
Net assets, Group share at LVMH (80%)	**355**
Goodwill	285
Carrying amount of shares held as of January 2, 2017	**640**

In 2017, Rimowa had consolidated revenue of 417 million euros and profit from recurring operations of 9 million euros.

The Rimowa brand, amounting to 475 million euros, was valued using the relief from royalty method. Goodwill, recognized in the amount of 285 million euros, is representative of Rimowa's expertise and capacity to innovate, for which it is internationally renowned in the sector of high-quality luggage.

The acquisition costs for Rimowa were recognized in "Other operating income and expenses"; these totaled 1 million euros in 2017, in addition to acquisition costs totaling 3 million euros recognized in 2016 (see Note 25).

In 2017, the Rimowa acquisition generated an outflow of 615 million euros, net of cash acquired in the amount of 25 million euros.

Loro Piana

In February 2017, following the partial exercise of the put option held by the Loro Piana family for Loro Piana shares, LVMH acquired an additional 5% stake in the company, bringing its ownership interest to 85%. The difference between the acquisition price and minority interests was deducted from equity.

Christian Dior Couture

On July 3, 2017, as part of the project aimed at simplifying the structures of the Christian Dior – LVMH group and in accordance with the terms of the memorandum of understanding signed with LVMH on April 24, 2017, Christian Dior SE sold 100% of the Christian Dior Couture segment to LVMH for 6.0 billion euros. Christian Dior directly and indirectly holds 41% of the share capital and 57% of the voting rights of LVMH.

The scope of the sale included Grandville and its subsidiary, Christian Dior Couture. As a result of this sale, the Financière Agache group's ownership interest in Christian Dior Couture fell from 72% in the first half of 2017 to 41% in the second half of 2017.

Since LVMH is fully consolidated within Financière Agache's consolidated financial statements, this sale had no impact on net profit.

The Financière Agache group's consolidated reserves were reduced by 464 million euros, an amount made up of:

- the portion of net assets transferred to minority interests in LVMH SE (324 million euros);
- the Group's share of transaction costs (4 million euros), which had a negative impact on equity of 5 million euros; and
- the tax on the capital gain on the sale after taking into account tax loss carryforwards (which had a negative impact on equity of 143 million euros), the Group's share of which represented a 136 million euro reduction in consolidated reserves.

Following the sale within the consolidated group of the Christian Dior Couture segment by Christian Dior SE to LVMH SE on July 3, 2017, information for Christian Dior Couture is included in figures for the "Fashion and Leather Goods" business group (see Note 23) for all the fiscal years presented.

2.2.2. *Other activities*

Simplified public offer by Semyrhamis for Christian Dior shares

On May 22, 2017, Semyrhamis (a wholly owned subsidiary of Financière Agache) filed a draft public offer document with the Autorité des Marchés Financiers (AMF, the French financial markets regulator) relating to its simplified public offer for the entirety of the Christian Dior shares not owned by the Arnault Family Group. This filing followed the signing of a syndicated loan agreement to finance the offer. The AMF issued its clearance notice ("avis de conformité") for the offer on June 6, 2017, and the public offer ran from June 8 to 28, 2017 inclusive.

The main terms of this public offer were as follows:

- primary mixed public offer: 172 euros and 0.192 Hermès International shares for each Christian Dior share tendered;
- secondary cash offer (with reduction and transfer mechanism): 260 euros for each Christian Dior share tendered;
- secondary exchange offer (with reduction and transfer mechanism): 0.566 Hermès International shares for each Christian Dior share tendered.

At the close of the simplified public offer, whose results were announced on July 4, 2017 by the AMF, Semyrhamis had acquired a total of 36,363,863 Christian Dior shares.

The settlement and delivery of the Christian Dior shares in exchange for Hermès International shares and the cash payment occurred on July 12. The settlement and delivery was comprised of (i) 6,254 million euros paid in cash and (ii) 6,980,933 Hermès shares tendered to the exchange offer and valued at 3,065 million euros, on the basis of the opening share price on July 12 (439 euros).

The impact of the public offer for Christian Dior shares on the consolidated financial statements as of December 31, 2017 was as follows:

	Impact of the mixed public offer		
(EUR millions)	Equity, Group share – Consolidated reserves	Other reserves; Minority interests	Total equity
Amount of the public offer	(9,318)		(9,318)
Offer costs	(18)		(18)
Portion of net assets acquired under the public offer	2,515	(2,515)	-
TOTAL	**(6,821)**	**(2,515)**	**(9,336)**

With respect to the Group's share of equity, the difference between the purchase price of the shares (9,318 million euros) and the portion of net assets acquired from minority interests (2,515 million euros) was deducted from the Group's share of consolidated reserves. The offer costs were also deducted from the Group's share of consolidated reserves.

At the close of the public offer period, the remaining stake held by the Group in Hermès International, corresponding to the shares not exchanged, came to 840 million euros. It was reclassified under "Current available for sale financial assets" (see Note 8 regarding "Non-current available for sale financial assets" and Note 13 regarding "Current available for sale financial assets").

In the consolidated financial statements for the fiscal year ended December 31, 2017, the revaluation adjustment (2.1 billion euros, before the tax impact) relating to the Hermès International shares exchanged – corresponding to the difference between the value of Hermès shares tendered (3.1 billion euros) and the cost price of these shares for consolidated accounting purposes (1.0 billion euros) – was recycled to consolidated reserves, without any impact on total equity.

Between the closing of the public offer and December 31, 2017, Semyrhamis acquired 4,097,750 Christian Dior shares, representing 2.27% of Christian Dior SE's share capital.

2.3. Fiscal year 2016

2.3.1. Fashion and Leather Goods

Donna Karan

On December 1, 2016, pursuant to the agreement signed on July 22, 2016, LVMH sold Donna Karan International to G-III Apparel Group. The sale was made based on an enterprise value of 650 million US dollars, translating to a provisional sale price of 542 million US dollars after adjustments and deducting Donna Karan's borrowings with LVMH. LVMH granted G-III Apparel Group a vendor loan for 125 million US dollars (recorded under "Other non-current assets"; see Note 9) and received the equivalent of 75 million US dollars in G-III shares (recorded under "Non-current available for sale financial assets"; see Note 8). In addition, the 129 million US dollars in financing granted to Donna Karan by LVMH was repaid by G-III Apparel Group. The impact of the sale of Donna Karan International on the Group's net profit was a gain of 44 million euros.

LVMH Métiers d'Arts

In December 2016, following the exercise of the put option held by its partner, LVMH Métiers d'Arts acquired an additional 35% stake in the Heng Long tannery (Singapore), bringing its ownership interest to 100%. The difference between the acquisition price and minority interests was deducted from equity.

2.3.2. Selective Retailing

In November 2016, following the exercise of the put option held by its partner, Sephora acquired an additional 35% stake in Ile de Beauté (Russia), bringing its ownership interest to 100%. The difference between the acquisition price and minority interests was deducted from equity.

2.4. Impact on cash and cash equivalents of changes in ownership interests in consolidated entities

(EUR millions)	**2018**	**2017**	**2016**
Purchase price of consolidated investments and of minority interests' shares	(1,279)	(8,634)	(1,165)
Positive cash balance/(net overdraft) of companies acquired	4	32	5
Proceeds from sale of consolidated investments	337	290	673
(Positive cash balance)/net overdraft of companies sold	-	181	110
IMPACT OF CHANGES IN OWNERSHIP INTERESTS IN CONSOLIDATED ENTITIES ON NET CASH AND CASH EQUIVALENTS	**(938)**	**(8,131)**	**(377)**
Of which: *Purchase and proceeds from sale of consolidated investments*	*(17)*	*(524)*	*310*
Purchase and proceeds from sale of minority interests	*(921)*	*(7,607)*	*(687)*

In 2018, the impact on net cash and cash equivalents of changes in ownership interests in consolidated entities mainly arose from the acquisition of Christian Dior and LVMH shares by Group companies, and the purchase of minority interests in Fresh and in various distribution subsidiaries, particularly in the Middle East. It also included LVMH SE's capital increases reserved for recipients of share subscription options, the impact of the LVMH liquidity contract and payments made by the recipients of Christian Dior share purchase options upon the exercise of their options.

In 2017, the impact on net cash and cash equivalents of changes in ownership interests in consolidated entities was mainly due to the cash impact (6,254 million euros; see Note 2) of the public offer by Semyrhamis for Christian Dior shares, subsequent purchases of said shares, capital increases by LVMH SE reserved for recipients of share subscription options, and the impact of the LVMH liquidity contract. Purchases of consolidated investments mainly arose from the acquisition of Rimowa for 615 million euros.

As of December 31, 2016, the impact on net cash and cash equivalents of changes in ownership interests in consolidated entities mainly arose from the sale of Donna Karan International for 435 million euros, and from the share repurchase program for shares pending retirement totaling 300 million euros, which was set up by LVMH in the fourth quarter of 2016. It also related to purchases of Christian Dior shares and payments made under performance clauses agreed in connection with past acquisitions.

NOTE 3 – BRANDS, TRADE NAMES AND OTHER INTANGIBLE ASSETS

	December 31, 2018			Dec. 31, 2017	Dec. 31, 2016
(EUR millions)	Gross	Amortization and impairment	Net	Net	Net
Brands	13,119	(549)	12,570	12,489	12,247
Trade names	3,851	(1,586)	2,265	2,176	2,440
License rights	25	(25)	-	-	-
Leasehold rights	891	(453)	438	392	416
Software, websites	1,903	(1,359)	544	459	375
Other	979	(585)	394	397	421
TOTAL	**20,768**	**(4,557)**	**16,211**	**15,913**	**15,899**

3.1. Changes during the fiscal year

The net amounts of brands, trade names and other intangible assets changed as follows during fiscal year 2018:

Gross value *(EUR millions)*	Brands	Trade names	Software, websites	Leasehold rights	Other intangible assets	Total
As of December 31, 2017	**13,011**	**3,692**	**1,661**	**856**	**923**	**20,143**
Acquisitions	-	-	177	88	272	537
Disposals and retirements	-	-	(82)	(10)	(126)	(218)
Changes in the scope of consolidation	40	-	-	1	1	42
Translation adjustment	68	159	23	3	14	267
Reclassifications	-	-	124	(47)	(80)	(3)
AS OF DECEMBER 31, 2018	**13,119**	**3,851**	**1,903**	**891**	**1,004**	**20,768**

Amortization and impairment *(EUR millions)*	Brands	Trade names	Software, websites	Leasehold rights	Other intangible assets	Total
As of December 31, 2017	**(522)**	**(1,516)**	**(1,202)**	**(464)**	**(526)**	**(4,230)**
Amortization expense	(18)	(1)	(221)	(60)	(147)	(447)
Impairment	-	-	-	(2)	(7)	(9)
Disposals and retirements	-	-	80	10	126	216
Changes in the scope of consolidation	-	-	-	-	(1)	(1)
Translation adjustment	(9)	(69)	(15)	(1)	(7)	(101)
Reclassifications	-	-	(1)	64	(48)	15
AS OF DECEMBER 31, 2018	**(549)**	**(1,586)**	**(1,359)**	**(453)**	**(610)**	**(4,557)**
CARRYING AMOUNT AS OF DECEMBER 31, 2018	**12,570**	**2,265**	**544**	**438**	**394**	**16,211**

3.2. Changes during prior fiscal years

Carrying amount *(EUR millions)*	**Brands**	**Trade names**	**Software, websites**	**Leasehold rights**	**Other intangible assets**	**Total**
As of December 31, 2015	**12,679**	**2,370**	**331**	**416**	**349**	**16,145**
Acquisitions	-	-	136	51	264	451
Disposals and retirements	-	-	(1)	(2)	-	(3)
Changes in the scope of consolidation	(364)	-	(2)	(5)	14	(357)
Amortization expense	(24)	(1)	(159)	(48)	(135)	(367)
Impairment	(34)	-	-	(2)	-	(36)
Translation adjustment	(10)	71	5	(3)	7	70
Reclassifications	-	-	65	9	(78)	(4)
As of December 31, 2016	**12,247**	**2,440**	**375**	**416**	**421**	**15,899**
Acquisitions	-	-	180	31	248	459
Disposals and retirements	-	-	(1)	(3)	-	(4)
Changes in the scope of consolidation	481	-	1	5	1	488
Amortization expense	(26)	(1)	(179)	(51)	(150)	(407)
Impairment	(50)	-	(2)	-	(1)	(53)
Translation adjustment	(163)	(263)	(23)	(8)	(18)	(475)
Reclassifications	-	-	108	2	(104)	6
AS OF DECEMBER 31, 2017	**12,489**	**2,176**	**459**	**392**	**397**	**15,913**

Changes in the scope of consolidation in 2017 were mainly attributable to the acquisition of Rimowa (see Note 2).

3.3. Brands and trade names

The breakdown of brands and trade names by business group is as follows:

	December 31, 2018			**Dec. 31, 2017**	**Dec. 31, 2016**
(EUR millions)	**Gross**	**Amortization and impairment**	**Net**	**Net**	**Net**
Wines and Spirits	2,818	(141)	2,677	2,674	2,713
Fashion and Leather Goods [(a)]	5,041	(215)	4,826	4,787	4,317
Perfumes and Cosmetics	1,349	(52)	1,297	1,311	1,324
Watches and Jewelry	3,633	(73)	3,560	3,507	3,682
Selective Retailing	3,804	(1,539)	2,265	2,176	2,440
Other activities	325	(115)	210	210	211
BRANDS AND TRADE NAMES	**16,970**	**(2,135)**	**14,835**	**14,665**	**14,687**

(a) Following the sale within the consolidated group of the Christian Dior Couture segment by Christian Dior SE to LVMH SE on July 3, 2017, information for Christian Dior Couture is included in figures for the "Fashion and Leather Goods" business group. For comparison purposes, figures for previous periods are presented using an identical approach.

The brands and trade names recognized are those that the Group has acquired. As of December 31, 2018, the principal acquired brands and trade names were:

- Wines and Spirits: Hennessy, Moët & Chandon, Veuve Clicquot, Krug, Château d'Yquem, Belvedere, Glenmorangie, Newton Vineyards and Numanthia Termes;
- Fashion and Leather Goods: Louis Vuitton, Fendi, Celine, Loewe, Givenchy, Kenzo, Pink Shirtmaker, Berluti, Pucci, Loro Piana and Rimowa;
- Perfumes and Cosmetics: Parfums Christian Dior, Guerlain, Parfums Givenchy, Make Up For Ever, Benefit Cosmetics, Fresh, Acqua di Parma, KVD Beauty, Fenty and Ole Henriksen;
- Watches and Jewelry: Bvlgari, TAG Heuer, Zenith, Hublot, Chaumet and Fred;
- Selective Retailing: DFS Galleria, Sephora, Le Bon Marché and Ile de Beauté;
- Other activities: The publications of the media group Les Echos-Investir, the daily newspaper Le Parisien-Aujourd'hui en France, the Royal Van Lent-Feadship brand, La Samaritaine, and the Cova pastry shop brand.

These brands and trade names are recognized in the balance sheet at their value determined as of the date of their acquisition by the Group, which may be much less than their value in use or their market value as of the closing date for the Group's consolidated financial statements. This is notably the case for the brands Louis Vuitton, Christian Dior Couture, Veuve Clicquot and Parfums Christian Dior, and the trade name Sephora, with the understanding that this list must not be considered exhaustive.

At the initial consolidation of LVMH in 1988, all brands then owned by LVMH were revalued in the consolidated financial statements of the Financière Agache group. In the Financière Agache consolidated financial statements, LVMH's accounts are restated to account for valuation differences in brands recorded prior to 1988 as well as intra-Group transactions in the consolidated accounts of each of these companies. See Note 1.3.

See also Note 5 for the impairment testing of brands, trade names and other intangible assets with indefinite useful lives.

NOTE 4 – GOODWILL

	December 31, 2018			Dec. 31, 2017	Dec. 31, 2016
(EUR millions)	**Gross**	**Impairment**	**Net**	**Net**	**Net**
Goodwill arising on consolidated investments	9,120	(1,643)	7,477	7,361	7,116
Goodwill arising on purchase commitments for minority interests' shares	5,073	-	5,073	5,299	4,286
TOTAL	**14,193**	**(1,643)**	**12,550**	**12,660**	**11,402**

Changes in net goodwill during the fiscal years presented break down as follows:

	December 31, 2018			Dec. 31, 2017	Dec. 31, 2016
(EUR millions)	**Gross**	**Impairment**	**Net**	**Net**	**Net**
As of January 1	**14,176**	**(1,516)**	**12,660**	**11,402**	**11,125**
Changes in the scope of consolidation (a)	45	-	45	426	(44)
Changes in purchase commitments for minority interests' shares	(126)	-	(126)	1,008	348
Changes in impairment	-	(100)	(100)	(52)	(97)
Translation adjustment	98	(27)	71	(125)	72
Reclassifications	-	-	-	1	(2)
AS OF DECEMBER 31	**14,193**	**(1,643)**	**12,550**	**12,660**	**11,402**

(a) See Note 2.

Changes in the scope of consolidation during the fiscal year ended December 31, 2017 were mainly attributable to the acquisition of Rimowa.

Changes in the scope of consolidation during the fiscal year ended December 31, 2016 mainly arose from the sale of Donna Karan International.

See also Note 2 for the impact of changes in the scope of consolidation and Note 20 for goodwill arising on purchase commitments for minority interests' shares.

NOTE 5 – IMPAIRMENT TESTING OF INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

Brands, trade names, and other intangible assets with indefinite useful lives as well as the goodwill arising on acquisition are tested for impairment at least once a year. No significant impairment expense was recognized in respect of these items during the course of fiscal year 2018. As described in Note 1.14, these assets are generally valued on the basis of the present value of forecast cash flows determined in the context of multi-year business plans drawn up each fiscal year.

The main assumptions used to determine these forecast cash flows for multi-year plans are as follows:

	December 31, 2018			December 31, 2017			December 31, 2016		
Business group *(as %)*	Post-tax discount rate	Annual growth rate for revenue during the plan period	Growth rate for the period after the plan	Post-tax discount rate	Annual growth rate for revenue during the plan period	Growth rate for the period after the plan	Post-tax discount rate	Annual growth rate for revenue during the plan period	Growth rate for the period after the plan
Wines and Spirits	6.5 to 11.0	5.7	2.0	6.5 to 11.0	5.9	2.0	6.5 to 11.0	6.0	2.0
Fashion and Leather Goods [(a)]	8.0 to 10.5	9.7	2.0	8.0 to 10.5	6.6	2.0	9.3 to 10.5	6.8	2.0
Perfumes and Cosmetics	7.4 to 10.1	8.9	2.0	7.4 to 10.1	9.3	2.0	7.4 to 10.1	9.6	2.0
Watches and Jewelry	9.0 to 10.4	8.3	2.0	9.0 to 10.4	6.9	2.0	9.0 to 10.4	9.9	2.0
Selective Retailing	7.3 to 9.4	9.8	2.0	7.3 to 8.3	8.2	2.0	7.3 to 9.4	7.7	2.0
Other	6.5 to 9.3	4.5	2.0	6.5 to 7.3	8.4	2.0	6.5 to 7.5	4.4	2.0

(a) Following the sale within the consolidated group of the Christian Dior Couture segment by Christian Dior SE to LVMH SE on July 3, 2017, information for Christian Dior Couture is included in figures for the "Fashion and Leather Goods" business group.

Plans generally cover a five-year period, but may be prolonged up to ten years in the case of brands for which the production cycle exceeds five years or brands undergoing strategic repositioning. The annual growth rate for revenue and the improvement in profit margins over plan periods are comparable to the growth achieved in the previous four years, except for brands undergoing strategic repositioning, for which the improvements projected are greater than historical performance due to the expected effects of the repositioning measures implemented.

Annual growth rates applied for the period not covered by the plans are based on market estimates for the business groups concerned.

As of December 31, 2018, the intangible assets with indefinite useful lives that are the most significant in terms of their carrying amounts and the criteria used for impairment testing are as follows:

(EUR millions)	Brands and trade names	Goodwill	Total	Post-tax discount rate *(as %)*	Growth rate for the period after the plan *(as %)*	Period covered by the forecast cash flows
Louis Vuitton	2,059	263	2,322	8.0	2.0	5 years
Loro Piana [(a)]	1,300	1,048	2,348	N/A	N/A	N/A
Fendi	713	404	1,117	9.3	2.0	5 years
Bvlgari	2,100	1,547	3,647	9.0	2.0	5 years
TAG Heuer	1,101	209	1,310	9.0	2.0	5 years
DFS Galleria	1,999	10	2,009	9.4	2.0	5 years
Hennessy	1,067	47	1,114	6.5	2.0	5 years

(a) For impairment testing purposes, the fair value of Loro Piana was determined by applying the share price multiples of comparable companies to Loro Piana's consolidated operating results. The change in multiples resulting from a 10% decrease in the market capitalization of comparable companies or the operating profit of Loro Piana would not generate an impairment risk for Loro Piana's intangible assets.
N/A: Not applicable.

As of December 31, 2018, for the business segments listed above (with the exception of Lora Piana – see (a) above), a 0.5-point change in the post-tax discount rate or in the growth rate for the period not covered by the plans, compared to rates used as of December 31, 2018, or a 2-point reduction in the annual growth rate for revenue over the period covered by the plans, would not result in the recognition of any impairment losses for these intangible assets. The Group considers that changes in excess of the limits mentioned above would entail assumptions at a level not deemed relevant in view of the current economic environment and medium- to long-term growth prospects for the business segments concerned. With respect to the other business segments, three have disclosed intangible assets with a carrying amount close to their recoverable amount. Impairment tests relating to intangible assets with indefinite useful lives in these business segments have been carried out based on value in use.

The amount of these intangible assets as of December 31, 2018 and the impairment loss that would result from a 0.5-point change in the post-tax discount rate or in the growth rate for the period not covered by the plans, or from a 2-point reduction in the compound annual growth rate for revenue compared to rates used as of December 31, 2018, break down as follows:

		Amount of impairment if:		
(EUR millions)	**Amount of intangible assets concerned as of December 31, 2018**	**Post-tax discount rate increases by 0.5 points**	**Annual growth rate for revenue decreases by 2 points**	**Growth rate for the period after the plan decreases by 0.5 points**
Watches and Jewelry	15	(3)	(2)	(1)
Other business groups	359	(17)	(13)	(14)
TOTAL	**374**	**(20)**	**(15)**	**(15)**

As of December 31, 2018, the gross and net values of brands, trade names and goodwill giving rise to amortization and/or impairment charges in 2018 were 644 million euros and 467 million euros, respectively (546 million euros and 222 million euros as of December 31, 2017). See Note 25 regarding the amortization and impairment expense recorded during the fiscal year.

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

	December 31, 2018			Dec. 31, 2017	Dec. 31, 2016
(EUR millions)	Gross	Depreciation and impairment	Net	Net	Net
Land	2,348	(83)	2,265	1,704	1,514
Vineyard land and producing vineyards [(a)]	2,584	(111)	2,473	2,432	2,474
Buildings	4,027	(1,838)	2,189	2,052	1,844
Investment property	653	(36)	617	777	869
Leasehold improvements, machinery and equipment	12,739	(8,661)	4,078	3,971	3,799
Assets in progress	1,238	(1)	1,237	784	1,007
Other property, plant and equipment	2,098	(482)	1,616	1,509	1,467
TOTAL	**25,687**	**(11,212)**	**14,475**	**13,229**	**12,974**
Of which: *Assets held under finance leases*	*495*	*(212)*	*283*	*267*	*309*
Historical cost of vineyard land and producing vineyards	*791*	*(111)*	*680*	*648*	*646*

(a) Almost all of the carrying amount of "Vineyard land and producing vineyards" corresponds to vineyard land.

6.1. Changes during the fiscal year

Changes in property, plant and equipment during the fiscal year broke down as follows:

Gross value (EUR millions)	Vineyard land and producing vineyards	Land and buildings	Investment property	Leasehold improvements, machinery and equipment: Stores	Leasehold improvements, machinery and equipment: Production, logistics	Leasehold improvements, machinery and equipment: Other	Assets in progress	Other property, plant and equipment	Total
As of December 31, 2017	**2,538**	**5,498**	**834**	**7,889**	**2,572**	**1,286**	**786**	**1,956**	**23,359**
Acquisitions	25	473	70	604	162	82	1,074	114	2,604
Change in the market value of vineyard land	8	-	-	-	-	-	-	-	8
Disposals and retirements	(1)	(61)	(6)	(407)	(60)	(54)	(2)	(26)	(617)
Changes in the scope of consolidation	-	-	-	3	1	4	-	-	8
Translation adjustment	(1)	96	15	153	6	20	4	9	302
Other movements, including transfers	15	369	(260)	390	75	13	(624)	45	23
AS OF DECEMBER 31, 2018	**2,584**	**6,375**	**653**	**8,632**	**2,756**	**1,351**	**1,238**	**2,098**	**25,687**

Depreciation and impairment (EUR millions)	Vineyard land and producing vineyards	Land and buildings	Investment property	Leasehold improvements, machinery and equipment: Stores	Leasehold improvements, machinery and equipment: Production, logistics	Leasehold improvements, machinery and equipment: Other	Assets in progress	Other property, plant and equipment	Total
As of December 31, 2017	**(106)**	**(1,742)**	**(57)**	**(5,207)**	**(1,689)**	**(880)**	**(2)**	**(447)**	**(10,130)**
Depreciation expense	(6)	(192)	(2)	(946)	(172)	(127)	-	(67)	(1,512)
Impairment	-	(2)	-	2	(1)	-	-	(2)	(3)
Disposals and retirements	1	61	6	404	57	53	1	29	612
Changes in the scope of consolidation	-	-	-	(1)	-	(1)	-	-	(2)
Translation adjustment	-	(34)	(1)	(108)	(5)	(15)	-	(7)	(170)
Other movements, including transfers	-	(12)	18	(51)	-	26	-	12	(7)
AS OF DECEMBER 31, 2018	**(111)**	**(1,921)**	**(36)**	**(5,907)**	**(1,810)**	**(944)**	**(1)**	**(482)**	**(11,212)**
CARRYING AMOUNT AS OF DECEMBER 31, 2018	**2,473**	**4,454**	**617**	**2,725**	**946**	**407**	**1,237**	**1,616**	**14,475**

"Other property, plant and equipment" includes in particular the works of art owned by the Group.

Purchases of property, plant and equipment mainly include investments by the Group's brands – notably Sephora, Louis Vuitton, DFS, Parfums Christian Dior, Bvlgari and Christian Dior Couture – in their retail networks. They also include investments by the champagne houses, Hennessy, Louis Vuitton and Parfums Christian Dior in their production equipment; investments related to the La Samaritaine and Jardin d'Acclimatation projects; and various real estate investments.

The impact of marking vineyard land to market was 1,793 million euros as of December 31, 2018 (1,785 million euros as of December 31, 2017; 1,829 million euros as of December 31, 2016). See Notes 1.9 and 1.13 on the measurement method for vineyard land.

The market value of investment property, according to appraisals by independent third parties, was at least 0.8 billion euros as of December 31, 2018, at the level of LVMH. The valuation methods used are based on market data.

6.2. Changes during prior fiscal years

Carrying amount *(EUR millions)*	Vineyard land and producing vineyards	Land and buildings	Investment property	Leasehold improvements, machinery and equipment: Stores	Leasehold improvements, machinery and equipment: Production, logistics	Leasehold improvements, machinery and equipment: Other	Assets in progress	Other property, plant and equipment	Total
As of December 31, 2015	**2,441**	**3,199**	**575**	**2,472**	**674**	**372**	**867**	**1,369**	**11,969**
Acquisitions	3	228	286	627	94	57	848	160	2,303
Disposals and retirements	-	(1)	-	-	(4)	(1)	(2)	2	(6)
Depreciation expense	(6)	(158)	(6)	(881)	(137)	(127)	-	(82)	(1,397)
Impairment	(1)	(2)	-	9	(1)	-	(4)	(2)	(1)
Change in the market value of vineyard land	30	-	-	-	-	-	-	-	30
Changes in the scope of consolidation	-	31	-	(14)	(4)	(2)	-	-	11
Translation adjustment	-	(29)	1	36	(3)	2	-	5	12
Other, including transfers	7	90	13	488	68	74	(702)	15	53
As of December 31, 2016	**2,474**	**3,358**	**869**	**2,737**	**687**	**375**	**1,007**	**1,467**	**12,974**
Acquisitions	9	331	-	572	158	85	842	132	2,129
Disposals and retirements	-	(3)	-	(3)	(3)	(2)	(11)	-	(22)
Depreciation expense	(7)	(174)	(5)	(920)	(180)	(136)	-	(66)	(1,488)
Impairment	1	(1)	-	(4)	-	-	(1)	-	(5)
Change in the market value of vineyard land	(35)	-	-	-	-	-	-	-	(35)
Changes in the scope of consolidation	-	57	-	17	49	3	22	10	158
Translation adjustment	(16)	(146)	(57)	(192)	(17)	(18)	(35)	(22)	(503)
Other, including transfers	6	334	(30)	475	189	99	(1,040)	(12)	21
AS OF DECEMBER 31, 2017	**2,432**	**3,756**	**777**	**2,682**	**883**	**406**	**784**	**1,509**	**13,229**

Changes in the scope of consolidation in fiscal year 2017 were mainly related to the acquisition of Rimowa (see Note 2).

Purchases of property, plant and equipment in fiscal years 2016 and 2017 included investments by the Group's brands in their retail networks, investments by the champagne houses and Hennessy in their production equipment, as well as, for 2017, investments related to the La Samaritaine project and, for 2016, investments in real estate for administrative use, sales operations or rental purposes.

NOTE 7 – INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

	December 31, 2018			*Of which: Joint arrangements*	Dec. 31, 2017	*Of which: Joint arrangements*	Dec. 31, 2016	*Of which: Joint arrangements*
(EUR millions)	Gross	Impairment	Net		Net		Net	
Share of net assets of joint ventures and associates as of January 1	**1,665**	**(8)**	**1,657**	**112**	**1,450**	**195**	**1,244**	**189**
Share of net profit/(loss) for the fiscal year	47	-	47	12	20	3	7	8
Dividends paid	(28)	-	(28)	(9)	(22)	(8)	(21)	(8)
Changes in the scope of consolidation	(18)	8	(10)	2	(78)	(78)	27	-
Capital increases subscribed	3	-	3	1	5	3	4	3
Translation adjustment	7	-	7	-	(34)	(7)	7	(1)
Revaluation adjustments	44	-	44	-	313	-	166	-
Other, including transfers	4	-	4	(1)	3	4	16	4
SHARE OF NET ASSETS OF JOINT VENTURES AND ASSOCIATES AS OF DECEMBER 31	**1,724**	**-**	**1,724**	**117**	**1,657**	**112**	**1,450**	**195**

As of December 31, 2018, investments in joint ventures and associates consisted primarily of the following:

- for joint arrangements:
  - a 50% stake in the Château Cheval Blanc wine estate (Gironde, France), which produces the eponymous Saint-Émilion Grand Cru Classé A;
- for other companies:
  - a 40% stake in Mongoual SA, the real estate company that owns the office building in Paris (France) that serves as the headquarters of LVMH Moët Hennessy - Louis Vuitton,
  - a 45% stake in PT. Sona Topas Tourism Industry Tbk (STTI), an Indonesian retail company, which notably holds duty-free sales licenses in airports,
  - a 46% stake in JW Anderson, a London-based ready-to-wear brand,
  - a 40% stake in Le Peigné SA, whose registered office is in Brussels (Belgium),
  - a 40% stake in L Catterton Management, an investment fund management company created in December 2015 in partnership with Catterton.

Repossi – an Italian jewelry brand in which the Group had taken a 41.7% stake, which was acquired in November 2015 and accounted for using the equity method until December 31, 2017 – is now fully consolidated, following the acquisition of an additional stake in the company, raising the Group's ownership interest from 41.7% to 68.9%.

Changes in the scope of consolidation in 2017 were mainly related to the disposal of the stake in De Beers Diamond Jewellers. See Note 2.

NOTE 8 – NON-CURRENT AVAILABLE FOR SALE FINANCIAL ASSETS

Non-current available for sale financial assets changed as follows during the fiscal years presented:

(EUR millions)	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016
As of January 1	**1,038**	**4,623**	**3,717**
Acquisitions	490	127	160
Disposals at net realized value	(72)	(3,206)	(163)
Changes in market value [(a)]	(108)	431	820
Changes in the scope of consolidation	-	5	67
Translation adjustment	17	(44)	22
Reclassifications [(b)]	(9)	(898)	-
AS OF DECEMBER 31	**1,356**	**1,038**	**4,623**

(a) Recognized within “Net financial income/(expense)” for non-current available for sale financial assets held by the LVMH group, and within “Revaluation reserves” for the non-current available for sale financial assets of companies at the Financière Agache sub-consolidation level. See Note 1.2.
(b) Reclassifications mainly include the reclassification of the remaining stake in Hermès International corresponding to the shares not tendered in exchange for Christian Dior shares under the public offer initiated by Semyrhamis. See Notes 2 and 13.

Acquisitions in fiscal year 2018 included, for 274 million euros, the impact of the acquisition of Belmond shares (see Notes 18 and 30), as well as, for 88 million euros, the impact of subscription of securities in investment funds and purchases of minority interests.

In fiscal year 2017, disposals mainly related to the Hermès International shares exchanged as consideration for Christian Dior shares under the mixed public offer (see Note 2). The fiscal year’s acquisitions included, for 66 million euros, the impact of subscription of securities in investment funds.

Acquisitions in fiscal year 2016 included the 120 million euro impact of non-current available for sale financial assets used to hedge cash-settled convertible bonds issued by LVMH during the fiscal year (see Note 18.1). Changes in the scope of consolidation corresponded to the stake in G-III Apparel Group received as partial payment of the selling price of Donna Karan International (see Note 2).

The market value of non-current available for sale financial assets is determined using the methods described in Note 1.9; see also Note 22.2 for the breakdown of these assets according to the measurement methods used.

NOTE 9 – OTHER NON-CURRENT ASSETS

(EUR millions)	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016
Warranty deposits	379	320	342
Derivatives (see Note 22)	257	246	168
Loans and receivables	303	770	725
Other	46	37	26
TOTAL	**985**	**1,373**	**1,261**

NOTE 10 – INVENTORIES AND WORK IN PROGRESS

	December 31, 2018			Dec. 31, 2017	Dec. 31, 2016
(EUR millions)	**Gross**	**Impairment**	**Net**	**Net**	**Net**
Wines and eaux-de-vie in the process of aging	4,796	(12)	4,784	4,517	4,281
Other raw materials and work in progress	2,105	(405)	1,700	1,370	1,270
	6,901	**(417)**	**6,484**	**5,887**	**5,551**
Goods purchased for resale	2,491	(225)	2,266	1,924	2,003
Finished products	4,852	(942)	3,910	3,234	3,525
	7,343	**(1,167)**	**6,176**	**5,158**	**5,528**
TOTAL	**14,244**	**(1,584)**	**12,660**	**11,045**	**11,079**

See Note 1.16 regarding the methods used to measure inventories and work in progress.

The change in net inventories for the fiscal years presented breaks down as follows:

	December 31, 2018			Dec. 31, 2017	Dec. 31, 2016
(EUR millions)	**Gross**	**Impairment**	**Net**	**Net**	**Net**
As of January 1	**12,584**	**(1,539)**	**11,045**	**11,079**	**10,577**
Change in gross inventories	1,739	-	1,739	1,045	889
Impact of provision for returns [(a)]	7	-	7	11	(4)
Impact of marking harvests to market	16	-	16	(21)	(19)
Change in provision for impairment	-	(285)	(285)	(366)	(397)
Changes in the scope of consolidation	29	(4)	25	(135)	(62)
Translation adjustment	140	(31)	109	(565)	95
Other, including reclassifications	(271)	275	4	(3)	-
AS OF DECEMBER 31	**14,244**	**(1,584)**	**12,660**	**11,045**	**11,079**

(a) See Note 1.25.

The impact of marking harvests to market on Wines and Spirits' cost of sales and value of inventory is as follows:

(EUR millions)	**Dec. 31, 2018**	**Dec. 31, 2017**	**Dec. 31, 2016**
Impact of marking the fiscal year's harvest to market	41	5	13
Impact of inventory sold during the fiscal year	(25)	(26)	(32)
NET IMPACT ON COST OF SALES OF THE FISCAL YEAR	**16**	**(21)**	**(19)**
NET IMPACT ON THE VALUE OF INVENTORY AT FISCAL YEAR-END	**126**	**110**	**131**

See Notes 1.9 and 1.16 on the method of marking harvests to market.

NOTE 11 – TRADE ACCOUNTS RECEIVABLE

(EUR millions)	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016
Trade accounts receivable, nominal amount	3,300	3,079	3,085
Provision for impairment	(78)	(78)	(71)
Provision for product returns [(a)]	-	(265)	(229)
NET AMOUNT	**3,222**	**2,736**	**2,785**

(a) See Note 1.25. See also Note 1.2.

The change in trade accounts receivable for the fiscal years presented breaks down as follows:

	December 31, 2018			Dec. 31, 2017	Dec. 31, 2016
(EUR millions)	Gross	Impairment	Net	Net	Net
As of January 1	**2,814**	**(78)**	**2,736**	**2,785**	**2,610**
Changes in gross receivables	179	-	179	137	129
Changes in provision for impairment	-	(1)	(1)	(11)	-
Changes in provision for product returns [(a)]	7	-	7	(43)	6
Changes in the scope of consolidation	5	-	5	41	(16)
Translation adjustment	24	-	24	(159)	46
Reclassifications	271	1	272	(14)	10
AS OF DECEMBER 31	**3,300**	**(78)**	**3,222**	**2,736**	**2,785**

(a) See Note 1.25. See also Note 1.2.

The trade accounts receivable balance is comprised essentially of receivables from wholesalers or agents, who are limited in number and with whom the Group maintains ongoing relationships for the most part.

As of December 31, 2018, coverage of customer credit risk had been requested from insurers for the majority of trade accounts receivable, approximately 84% of the amount of which was granted, versus 91% as of December 31, 2017.

As of December 31, 2018, the breakdown of the nominal amount of trade accounts receivable and of provisions for impairment by age was as follows:

(EUR millions)	Nominal amount of receivables	Impairment	Net amount of receivables
Not due:			
- Less than 3 months	2,688	(14)	2,674
- More than 3 months	146	(9)	137
	2,834	**(23)**	**2,811**
Overdue:			
- Less than 3 months	340	(5)	335
- More than 3 months	126	(50)	76
	466	**(55)**	**411**
TOTAL	**3,300**	**(78)**	**3,222**

For each of the fiscal years presented, no single customer accounted for more than 10% of the Group's consolidated revenue.

The present value of trade accounts receivable is identical to their carrying amount.

NOTE 12 – OTHER CURRENT ASSETS

(EUR millions)	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016
Current available for sale financial assets (see Note 13)	3,381	3,752	657
Derivatives (see Note 22)	123	498	303
Tax accounts receivable, excluding income taxes	895	747	661
Advances and payments on account to vendors	216	204	203
Prepaid expenses	430	396	400
Other receivables	749	566	548
TOTAL	**5,794**	**6,163**	**2,772**

NOTE 13 – CURRENT AVAILABLE FOR SALE FINANCIAL ASSETS

(EUR millions)	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016
Unlisted securities, shares in non-money-market SICAVs and funds	-	-	-
Listed securities and term deposits	3,381	3,752	657
TOTAL	**3,381**	**3,752**	**657**
Of which: Historical cost of current available for sale financial assets	*3,024*	*3,061*	*606*

The net value of current available for sale financial assets changed as follows during the fiscal years presented:

(EUR millions)	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016
As of January 1	**3,752**	**657**	**614**
Acquisitions and new term deposits	601	2,391	252
Disposals at net realized value and repayment of term deposits	(958)	(516)	(263)
Changes in market value [(a)]	(13)	327	53
Changes in the scope of consolidation	-	-	-
Translation adjustment	(1)	(5)	1
Reclassifications [(b)]	-	898	-
AS OF DECEMBER 31	**3,381**	**3,752**	**657**

(a) Recognized within “Net financial income/(expense)” for current available for sale financial assets held by the LVMH group, and within “Revaluation reserves” for the current available for sale financial assets of companies at the Financière Agache sub-consolidation level. See Note 1.2.
(b) See Notes 2 and 8.

In fiscal year 2017, acquisitions and new term deposits mainly included term deposits with terms longer than three months.

The market value of current available for sale financial assets is determined using the methods described in Note 1.9. See also Note 22.2 for the breakdown of current available for sale financial assets according to the measurement methods used.

NOTE 14 – CASH AND CHANGE IN CASH

14.1. Cash and cash equivalents

(EUR millions)	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016
Term deposits (less than 3 months)	654	709	530
SICAV and FCP funds	3,061	2,684	668
Ordinary bank accounts	5,420	4,558	2,608
CASH AND CASH EQUIVALENTS PER BALANCE SHEET	**9,135**	**7,951**	**3,806**

The reconciliation between cash and cash equivalents as shown in the balance sheet and net cash and cash equivalents appearing in the cash flow statement is as follows:

(EUR millions)	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016
Cash and cash equivalents	9,135	7,951	3,806
Bank overdrafts	(198)	(120)	(217)
NET CASH AND CASH EQUIVALENTS PER CASH FLOW STATEMENT	**8,937**	**7,831**	**3,589**

14.2. Change in working capital

The change in working capital breaks down as follows for the fiscal years presented:

(EUR millions)	*Notes*	2018	2017	2016
Change in inventories and work in progress	*10*	(1,739)	(1,045)	(889)
Change in trade accounts receivable	*11*	(179)	(137)	(129)
Change in balance of amounts owed to customers		8	4	10
Change in trade accounts payable	*21*	714	311	242
Change in other receivables and payables		91	346	182
CHANGE IN WORKING CAPITAL (a)		**(1,105)**	**(521)**	**(584)**

(a) Increase/(Decrease) in cash and cash equivalents.

14.3. Operating investments

Operating investments comprise the following elements for the fiscal years presented:

(EUR millions)	*Notes*	2018	2017	2016
Purchase of intangible assets	*3*	(537)	(459)	(451)
Purchase of property, plant and equipment (a)	*6*	(2,604)	(2,129)	(2,303)
Deduction of purchase under finance lease		14	6	204
Changes in accounts payable related to fixed asset purchases		137	44	122
Net cash used in purchases of fixed assets		**(2,990)**	**(2,538)**	**(2,428)**
Net cash from fixed asset disposals		10	27	7
Guarantee deposits paid and other cash flows related to operating investments		(58)	(5)	(17)
OPERATING INVESTMENTS (b)		**(3,038)**	**(2,516)**	**(2,438)**

(a) Including finance lease acquisitions.
(b) Increase/(Decrease) in cash and cash equivalents.

NOTE 15 – EQUITY

15.1. Share capital

As of December 31, 2018, the share capital of the parent company Financière Agache SA consisted of 3,173,352 fully paid-up shares (3,173,352 as of both December 31, 2017 and December 31, 2016), with a par value of 16 euros per share, including 3,169,549 shares with double voting rights (3,169,463 as of December 31, 2017 and 3,169,514 as of December 31, 2016). Double voting rights are attached to registered shares held for more than three years.

15.2. Treasury shares

The impact of Financière Agache treasury shares on the Group's net equity breaks down as follows for the fiscal years presented:

(EUR millions)	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016
FINANCIÈRE AGACHE TREASURY SHARES	**(6)**	**(6)**	**(6)**

15.3. Dividends paid by the parent company, Financière Agache SA

In accordance with French regulations, dividends are taken from the profit for the fiscal year and the distributable reserves of the parent company, after deducting applicable withholding tax and the value attributable to treasury shares. As of December 31, 2018, the distributable amount was 3,726 million euros.

(EUR millions, except for data per share in EUR)	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016
Interim dividend(s) for the current fiscal year (2018: 70 euros; 2017: 100 euros; 2016: 26 euros)	222	317	82
Impact of treasury shares	-	-	-
	222	**317**	**82**
Final dividend for the previous fiscal year	-	-	-
Impact of treasury shares	-	-	-
	-	**-**	**-**
TOTAL GROSS AMOUNT DISBURSED DURING THE FISCAL YEAR (a)	**222**	**317**	**82**

(a) Excluding the impact of tax regulations applicable to the recipient.

No final dividend in respect of fiscal year 2018 will be proposed at the Shareholders' Meeting of May 22, 2019.

15.4. Cumulative translation adjustment

The change in "Cumulative translation adjustment" recognized within "Equity, Group share", net of hedging effects of net assets denominated in foreign currency, breaks down as follows by currency:

(EUR millions)	Dec. 31, 2018	Change	Dec. 31, 2017	Dec. 31, 2016
US dollar	114	68	46	145
Swiss franc	263	45	218	245
Japanese yen	46	16	30	32
Hong Kong dollar	145	16	129	175
Pound sterling	(47)	(3)	(44)	(28)
Other currencies	(103)	(35)	(68)	(10)
Foreign currency net investment hedges [(a)]	(185)	(13)	(172)	(165)
TOTAL, GROUP SHARE	**233**	**94**	**139**	**394**

(a) Including -58 million euros with respect to the US dollar (-53 million euros as of December 31, 2017 and -53 million euros as of December 31, 2016), 48 million euros with respect to the Hong Kong dollar (-48 million euros as of December 31, 2017 and -43 million euros as of December 31, 2016), and -79 million euros with respect to the Swiss franc (-73 million euros as of December 31, 2017 and -68 million euros as of December 31, 2016). These amounts include the tax impact.

15.5. Strategy relating to the Group's financial structure

The Group believes that the management of its financial structure, together with the development of the companies it owns and the management of its brand portfolio, helps create value for its shareholders. Maintaining a suitable-quality credit rating is a core objective for the Group, ensuring good access to markets under favorable conditions and allowing it to seize opportunities and procure the resources it needs to develop its business.

To this end, the Group monitors a certain number of financial ratios and aggregate measures of financial risk, including:

- net financial debt (see Note 18) to equity;
- cash from operations before changes in working capital to net financial debt;
- net cash from operations before changes in working capital;
- net cash from operating activities and operating investments (free cash flow);
- long-term resources to fixed assets;
- proportion of long-term debt in net financial debt.

Long-term resources are understood to correspond to the sum of equity and non-current liabilities.

Where applicable, these indicators are adjusted to reflect the Group's off-balance sheet financial commitments.

The Group also promotes financial flexibility by maintaining numerous and varied banking relationships, through frequent recourse to several negotiable debt markets (both short- and long-term), by holding a large amount of cash and cash equivalents, and through the existence of sizable amounts of undrawn confirmed credit lines, intended to largely exceed the outstanding portion of its short-term negotiable debt securities programs, while continuing to represent a reasonable cost for the Group.

NOTE 16 – STOCK OPTION AND BONUS SHARE EXPENSE

There were no stock option plans, bonus share plans or similar plans set up by Financière Agache SA as of December 31, 2018 nor in any of the other fiscal years presented.

Expense for the fiscal year

(EUR millions)	2018	2017	2016
Expense for the fiscal year for Christian Dior share purchase option and bonus and performance share plans	8	11	10
Expense for the fiscal year for LVMH share subscription option and bonus and performance share plans	79	62	41
EXPENSE FOR THE FISCAL YEAR	**87**	**73**	**51**

See Note 1.27 regarding the method used to determine the accounting expense.

LVMH

The LVMH closing share price the day before the grant date of the plans was 241.20 euros for the plans dated January 25, 2018; 278.25 euros for the plans dated April 12, 2018; and 259.65 euros for the plan dated October 25, 2018.

The average unit value of bonus shares provisionally allocated under these plans was 246.33 euros.

Christian Dior

No new Christian Dior stock option and/or bonus share plans were put in place during fiscal year 2018.

NOTE 17 – MINORITY INTERESTS

(EUR millions)	**Dec. 31, 2018**	**Dec. 31, 2017**	**Dec. 31, 2016**
As of January 1	**20,241**	**21,254**	**19,717**
Minority interests' share of net profit	4,406	3,774	3,348
Dividends paid to minority interests	(1,942)	(1,556)	(1,498)
Impact of changes in control of consolidated entities: [(a)]	36	101	19
Of which: Rimowa	-	*89*	-
Of which: Other	*36*	*12*	*19*
Impact of acquisition and disposal of minority interests' shares: [(a)]	(247)	(2,585)	(376)
Of which: Movements in LVMH SE and Christian Dior SE share capital and treasury shares	*(103)*	*33*	*(186)*
Of which: Sale of the Christian Dior Couture segment to LVMH	-	*316*	-
Of which: Purchases of minority interests in Christian Dior [(b)]	*(103)*	*(2,814)*	-
Of which: Loro Piana [(c)]	-	*(115)*	-
Of which: Other	*(41)*	*(5)*	*(190)*
Capital increases subscribed by minority interests	50	31	41
Minority interests' share in gains and losses recognized in equity	28	(442)	74
Minority interests' share in expenses for stock option plans and bonus and performance share plans	47	44	32
Impact of changes in minority interests with purchase commitments	(222)	(380)	(103)
AS OF DECEMBER 31	**22,397**	**20,241**	**21,254**

(a) The total impact of changes in ownership interests in consolidated entities amounted to -211 million euros as of December 31, 2018; 2,484 million euros as of December 31, 2017; and -357 million euros as of December 31, 2016.
(b) Corresponds to the portion of the Christian Dior group's net assets acquired by Semyrhamis under the public offer and subsequent purchases of Christian Dior shares, excluding gains and losses recognized in equity. See Note 2.
(c) Of which -58 million euros for minority interests in Loro Piana and -47 million euros for LVMH SE shareholders, excluding Christian Dior SE's controlling interest. See Note 2.

The change in minority interests' share in gains and losses recognized in equity, including the tax impact, breaks down as follows:

(EUR millions)	Cumulative translation adjustment	Hedges of future foreign currency cash flows	Vineyard land	Revaluation adjustments for employee benefit commitments	Total share of minority interests
As of December 31, 2015	**976**	**(59)**	**884**	**(99)**	**1,702**
Changes during the fiscal year	58	(34)	103	(50)	77
Changes due to purchase and proceeds from sale of minority interests	(4)	-	(4)	1	(7)
As of December 31, 2016	**1,030**	**(93)**	**983**	**(148)**	**1,772**
Changes during the fiscal year	(692)	196	31	24	(441)
Changes due to purchase and proceeds from sale of minority interests	(66)	(11)	(99)	12	(164)
As of December 31, 2017	**272**	**92**	**915**	**(112)**	**1,167**
Changes during the fiscal year	191	(183)	5	15	28
Changes due to purchase and proceeds from sale of minority interests and reclassifications	(1)	-	(2)	-	(3)
AS OF DECEMBER 31, 2018	**462**	**(91)**	**918**	**(97)**	**1,192**

Minority interests mainly comprise:

- shareholders of LVMH SE (57%) other than Group companies that are controlling shareholders (Financière Jean Goujon and Financière Agache). They were paid a total of 1,549 million euros in dividends during the fiscal year;
- shareholders of Christian Dior SE (5%) other than Financière Agache and Semyrhamis, the controlling shareholders. They were paid a total of 48 million euros in dividends during the fiscal year;
- Diageo's 34% stake in Moët Hennessy SAS and Moët Hennessy International SAS ("Moët Hennessy"), and the 39% stake held by Mari-Cha Group Ltd (formerly Search Investment Group Ltd) in DFS.

Since the 34% stake held by Diageo in Moët Hennessy is subject to a purchase commitment, it is reclassified at year-end under "Other non-current liabilities" and is therefore excluded from the total amount of "Minority interests" at the fiscal year-end date. See Notes 1.12 and 20.

Dividends paid to Diageo during fiscal year 2018 in respect of fiscal year 2017 amounted to 173 million euros. Net profit attributable to Diageo for fiscal year 2018 was 356 million euros, and its share in "Minority interests" (before recognition of the purchase commitment granted to Diageo, which led to this item being reclassified under "Equity, Group share") came to 3,215 million euros as of December 31, 2018. As of that date, the consolidated balance sheet of Moët Hennessy was as follows:

(EUR billions)	Dec. 31, 2018
Property, plant and equipment and intangible assets	3.8
Other non-current assets	0.3
Non-current assets	**4.1**
Inventories	5.4
Other current assets	1.4
Cash and cash equivalents	2.3
Current assets	**9.1**
Assets	**13.2**

(EUR billions)	Dec. 31, 2018
Equity	9.4
Non-current liabilities	1.0
Equity and non-current liabilities	**10.4**
Short-term borrowings	1.3
Other	1.5
Current liabilities	**2.8**
Liabilities and equity	**13.2**

See also Note 23 regarding the revenue, operating profit and main assets of the Wines and Spirits business group, which relate primarily to Moët Hennessy's business activities.

With regard to DFS, dividends paid to Mari-Cha Group Ltd during fiscal year 2018 in respect of fiscal year 2017 amounted to 35 million euros. Net profit attributable to Mari-Cha Group Ltd for fiscal year 2018 was 173 million euros, and its share in accumulated minority interests as of December 31, 2018 came to 1,439 million euros.

NOTE 18 – BORROWINGS

18.1. Net financial debt

(EUR millions)	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016
Long-term borrowings	9,301	12,295	5,914
Short-term borrowings	11,396	9,555	5,142
Gross borrowings	**20,697**	**21,850**	**11,056**
Interest rate risk derivatives	(13)	(29)	(61)
Foreign exchange risk derivatives	146	(25)	(21)
Gross borrowings after derivatives	**20,830**	**21,796**	**10,974**
Current available for sale financial assets [(a)]	(3,381)	(3,752)	(657)
Non-current available for sale financial assets used to hedge financial debt [(b)]	(125)	(117)	(131)
Cash and cash equivalents [(c)]	(9,135)	(7,951)	(3,806)
Net financial debt	**8,189**	**9,976**	**6,380**
Belmond shares (presented within "Non-current available for sale financial assets") [(b)]	(274)	-	-
ADJUSTED NET FINANCIAL DEBT (EXCLUDING THE ACQUISITION OF BELMOND SHARES)	**7,915**	**9,976**	**6,380**

(a) See Note 13.
(b) See Note 8.
(c) See Note 14.1.

In late December 2018, after the announcement of LVMH's acquisition of Belmond, the Group purchased Belmond shares on the market for 274 million euros. These shares are presented within "Non-current available for sale financial assets" (see Note 8).

The adjusted net financial debt (excluding the acquisition of Belmond shares) presented above helps show the impact of the Group's performance in 2018 on the level of net financial debt at the balance sheet date.

The change in net financial debt during the fiscal year is as follows:

(EUR millions)	Dec. 31, 2017	Impact on cash [(a)]	Translation adjustment	Impact of market value changes	Changes in the scope of consolidation	Reclassi-fication and other	Dec. 31, 2018
Long-term borrowings	12,295	(418)	(16)	16	-	(2,576)	9,301
Short-term borrowings	9,555	(824)	94	10	5	2,556	11,396
Gross borrowings	**21,850**	**(1,242)**	**78**	**26**	**5**	**(20)**	**20,697**
Derivatives	(54)	(48)	-	238	-	(3)	133
GROSS BORROWINGS AFTER DERIVATIVES	**21,796**	**(1,290)**	**78**	**264**	**5**	**(23)**	**20,830**

(a) Including a positive impact of 1,554 million euros in respect of proceeds from borrowings, a negative impact of 2,676 million euros in respect of repayment of borrowings, and a negative impact of 168 million euros in respect of the change in accounts payable to affiliated companies.

During the fiscal year, LVMH repaid the 500 million euro bond issued in 2011 and the 1,250 million euro bond issued in 2017.

In 2017, as part of the financing of the public offer for the Christian Dior shares not owned by the Arnault Family Group (see Note 2), the Financière Agache subsidiary Semyrhamis took out long-term and short-term loans to finance the cash portion of the offer as well as subsequent purchases of Christian Dior shares.

Financière Agache issued a 50 million euro bond in August 2017 maturing in August 2022, which was followed by a 70 million euro tap issue in December 2017. These bonds pay a coupon of 1.20% and are redeemable at par.

During the 2017 fiscal year, Financière Agache also redeemed the 275 million euro bond issued in 2012.

In May 2017, LVMH carried out a bond issue divided into four tranches totaling 4.5 billion euros, comprised of 3.25 billion euros in fixed-rate bonds and 1.25 billion euros in floating-rate bonds. In addition, in June 2017, LVMH issued 400 million pounds sterling in fixed-rate bonds maturing in June 2022. At the time these bonds were issued, swaps were entered into that converted them into euro-denominated borrowings.

During the 2017 fiscal year, LVMH repaid the 850 million US dollar bond issued in 2012, the 150 million euro bond issued in 2009 and the 350 million pound sterling bond issued in 2014. During the fiscal year ended December 31, 2016, LVMH repaid the 650 million euro bond issued in 2013 and 2014.

In the first half of 2016, Financière Agache entered into a syndicated loan facility with a borrowing limit of 500 million euros and a maturity of five years, replacing the syndicated loan facility in the same amount due to mature in the second half of 2016.

In February 2016, LVMH issued exclusively cash-settled five-year convertible bonds with a total face value of 600 million US dollars, supplemented by a 150 million US dollar tap issue carried out in April 2016. As provided by applicable accounting policies, the optional components of convertible bonds and financial instruments subscribed for hedging purposes are recorded under "Derivatives" (see Note 22), with hedging instruments other than these optional components recorded under "Non-current available for sale financial assets" (see Note 8). Given their connection to the bonds issued, hedging instruments (except option components) are presented as deducted from gross financial debt in calculating net financial debt, and their impact on cash and cash equivalents is presented under "Financing activities" in the cash flow statement.

Net financial debt does not take into consideration purchase commitments for minority interests' shares, which are classified as "Other non-current liabilities" (see Note 20).

18.2. Breakdown of gross borrowings by type

(EUR millions)	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016
Bonds and Euro Medium-Term Notes (EMTNs)	6,062	7,525	4,322
Finance and other long-term leases	315	296	342
Bank borrowings	2,924	3,800	888
Other borrowings and credit facilities	-	674	362
LONG-TERM BORROWINGS	**9,301**	**12,295**	**5,914**
Bonds and Euro Medium-Term Notes (EMTNs)	1,496	1,753	1,652
Finance and other long-term leases	26	21	10
Bank borrowings	4,720	4,469	692
Short-term negotiable debt securities [(a)]	3,987	2,709	1,948
Other borrowings and credit facilities	934	425	588
Bank overdrafts	198	120	217
Accrued interest	35	58	35
SHORT-TERM BORROWINGS	**11,396**	**9,555**	**5,142**
TOTAL GROSS BORROWINGS	**20,697**	**21,850**	**11,056**

(a) Euro- and US dollar-denominated commercial paper.

The market value of gross borrowings, based on market data and commonly used valuation models, was 20,745 million euros as of December 31, 2018 (21,823 million euros as of December 31, 2017 and 11,097 million euros as of December 31, 2016), including 11,403 million euros in short-term borrowings (9,558 million euros as of December 31, 2017 and 5,148 million euros as of December 31, 2016) and 9,343 million euros in long-term borrowings (12,265 million euros as of December 31, 2017 and 5,949 million euros as of December 31, 2016).

As of December 31, 2018, December 31, 2017 and December 31, 2016, no financial debt was recognized using the fair value option. See Note 1.20.

18.3. Bonds and EMTNs

Nominal amount *(in currency)*	**Year issued**	**Maturity**	**Initial effective interest rate** [(a)] *(as %)*	**2018** *(EUR millions)*	**2017** *(EUR millions)*	**2016** *(EUR millions)*
EUR 1,200,000,000	2017	2024	0.82	1,197	1,192	-
EUR 120,000,000 [(b)]	2017	2022	1.16	121	121	-
EUR 800,000,000	2017	2022	0.46	799	796	-
GBP 400,000,000	2017	2022	1.09	439	445	-
EUR 1,250,000,000	2017	2020	0.13	1,248	1,246	-
EUR 1,250,000,000	2017	2018	Floating	-	1,253	-
USD 750,000,000 [(c)]	2016	2021	1.92	639	603	682
EUR 350,000,000	2016	2021	0.86	349	348	348
EUR 650,000,000	2014	2021	1.12	664	663	670
AUD 150,000,000	2014	2019	3.68	94	100	103
EUR 300,000,000	2014	2019	Floating	300	300	300
EUR 500,000,000	2014	2019	1.56	499	499	498
EUR 600,000,000	2013	2020	1.89	606	606	608
EUR 600,000,000 [(d)]	2013	2019	1.25	603	605	608
EUR 500,000,000	2011	2018	4.08	-	501	505
GBP 350,000,000	2014	2017	1.83	-	-	413
USD 850,000,000	2012	2017	1.75	-	-	811
EUR 275,000,000	2012	2017	3.27	-	-	275
EUR 150,000,000	2009	2017	4.81	-	-	153
TOTAL BONDS AND EMTNS				**7,558**	**9,278**	**5,974**

(a) Before the impact of interest-rate hedges implemented when or after the bonds were issued.
(b) Cumulative amounts and weighted average initial effective interest rate based on a 50 million euro bond issued in August 2017 at an initial effective interest rate of 1.32% and a 70 million euro tap issue carried out in December 2017 at an initial effective interest rate of 1.05%.
(c) Cumulative amounts and weighted average initial effective interest rate based on a 600 million US dollar bond issued in February 2016 at an initial effective interest rate of 1.96% and a 150 million US dollar tap issue carried out in April 2016 at an effective interest rate of 1.74%. These yields were determined excluding the option component.
(d) Cumulative amounts and weighted average initial effective interest rate based on a 500 million euro bond issued in 2013 at an initial effective interest rate of 1.38% and a 100 million euro tap issue carried out in 2014 at an effective interest rate of 0.62%.

18.4. Breakdown of gross borrowings by payment date and type of interest rate

(EUR millions)	Gross borrowings			Impact of derivatives			Gross borrowings after derivatives		
	Fixed rate	Floating rate	Total	Fixed rate	Floating rate	Total	Fixed rate	Floating rate	Total
Maturity:									
December 31, 2019	4,941	6,455	11,396	(37)	121	84	4,904	6,576	11,480
December 31, 2020	1,900	555	2,455	(163)	196	33	1,737	751	2,488
December 31, 2021	1,735	644	2,379	(351)	337	(14)	1,384	981	2,365
December 31, 2022	1,393	642	2,035	(319)	336	17	1,074	978	2,052
December 31, 2023	22	1,001	1,023	515	(500)	15	537	501	1,038
December 31, 2024	1,217	1	1,218	(299)	297	(2)	918	298	1,216
Thereafter	184	7	191	-	-	-	184	7	191
TOTAL	**11,392**	**9,305**	**20,697**	**(654)**	**787**	**133**	**10,738**	**10,092**	**20,830**

See Note 22.4 on the market value of interest rate risk derivatives.

The breakdown by quarter of gross borrowings falling due in 2019 is as follows:

(EUR millions)	Falling due in 2019
First quarter	3,945
Second quarter	1,567
Third quarter	51
Fourth quarter	5,833
TOTAL	**11,396**

18.5. Breakdown of gross borrowings by currency after derivatives

(EUR millions)	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016
Euro	15,671	16,321	5,127
US dollar	3,649	3,594	3,023
Swiss franc	46	188	655
Japanese yen	662	722	595
Other currencies	802	971	1,574
TOTAL	**20,830**	**21,796**	**10,974**

The purpose of foreign currency borrowings is to finance the development of the Group's activities outside the eurozone, as well as the Group's assets denominated in foreign currency.

18.6. Sensitivity

On the basis of debt as of December 31, 2018:

- an instantaneous 1-point increase in the yield curves of the Group's debt currencies would raise the cost of net financial debt by 101 million euros after hedging, and would lower the market value of gross fixed-rate borrowings by 124 million euros after hedging;
- an instantaneous 1-point decrease in these same yield curves would lower the cost of net financial debt by 101 million euros after hedging, and would raise the market value of gross fixed-rate borrowings by 124 million euros after hedging.

18.7. Covenants

In connection with certain credit lines, the Group may undertake to maintain certain financial ratios or to hold specific percentages of ownership interest and/or voting rights in certain subsidiaries.

18.8. Undrawn confirmed credit lines

As of December 31, 2018, undrawn confirmed credit lines totaled 7.4 billion euros.

18.9. Guarantees and collateral

As of December 31, 2018, borrowings secured by collateral were less than 7.8 billion euros.

NOTE 19 – PROVISIONS

(EUR millions)	**Dec. 31, 2018**	**Dec. 31, 2017**	**Dec. 31, 2016**
Provisions for pensions, medical costs and similar commitments	605	625	715
Provisions for contingencies and losses	1,898	1,948	1,657
Provisions for reorganization	2	9	18
Non-current provisions	**2,505**	**2,582**	**2,390**
Provisions for pensions, medical costs and similar commitments	7	4	5
Provisions for contingencies and losses	344	368	322
Provisions for reorganization	21	34	29
Current provisions	**372**	**406**	**356**
TOTAL	**2,877**	**2,988**	**2,746**

During the fiscal year ended December 31, 2018, changes in provisions were as follows:

(EUR millions)	**Dec. 31, 2017**	**Increases**	**Amounts used**	**Amounts released**	**Changes in the scope of consolidation**	**Other [(a)]**	**Dec. 31, 2018**
Provisions for pensions, medical costs and similar commitments	629	122	(122)	(2)	-	(15)	612
Provisions for contingencies and losses	2,316	315	(231)	(176)	(24)	42	2,242
Provisions for reorganization	43	3	(22)	(1)	-	-	23
TOTAL	**2,988**	**440**	**(375)**	**(179)**	**(24)**	**27**	**2,877**
Of which:							
Profit from recurring operations		359	(338)	(94)			
Net financial income/(expense)		-	(1)	(4)			
Other		81	(36)	(81)			

(a) Including the impact of translation adjustments and changes in revaluation reserves.

Provisions for contingencies and losses correspond to the estimate of the impact on assets and liabilities of risks, disputes (see Note 31), or actual or probable litigation arising from the Group's activities; such activities are carried out worldwide, within what is often an imprecise regulatory framework that is different for each country, changes over time and applies to areas ranging from product composition and packaging to the tax computation and relations with the Group's partners (distributors, suppliers, shareholders in subsidiaries, etc.).

In particular, the Group's entities in France and abroad may be subject to tax inspections and, in certain cases, to rectification claims from local administrations. These rectification claims, together with any uncertain tax positions that have been identified but not yet officially notified, give rise to appropriate provisions, the amount of which is regularly reviewed in accordance with the criteria of IAS 37 Provisions and IAS 12 Income Taxes.

Provisions for pensions, contribution to medical costs and other employee benefit commitments are analyzed in Note 29.

NOTE 20 – OTHER NON-CURRENT LIABILITIES

(EUR millions)	**Dec. 31, 2018**	**Dec. 31, 2017**	**Dec. 31, 2016**
Purchase commitments for minority interests' shares	9,281	9,177	7,877
Derivatives [(a)]	286	229	134
Employee profit sharing	89	94	91
Other liabilities	386	370	407
TOTAL	**10,042**	**9,870**	**8,509**

(a) See Note 22.

As of December 31, 2018, purchase commitments for minority interests' shares mainly include the put option granted by LVMH to Diageo plc for its 34% share in Moët Hennessy, for 80% of the fair value of Moët Hennessy at the exercise date of the option. This option may be exercised at any time subject to a six-month notice period. The fair value of this commitment was calculated by applying the share price multiples of comparable firms to Moët Hennessy's consolidated operating results.

Moët Hennessy SAS and Moët Hennessy International SAS ("Moët Hennessy") hold the LVMH group's investments in the Wines and Spirits businesses, with the exception of the equity investments in Château d'Yquem, Château Cheval Blanc, Clos des Lambrays and Colgin Cellars, and excluding certain champagne vineyards.

Purchase commitments for minority interests' shares also include commitments relating to minority shareholders in Loro Piana (15%), Rimowa (20%) and distribution subsidiaries in various countries, mainly in the Middle East.

The put option granted to minority interests in Fresh was exercised in 2018. See Note 2.

In 2017, the put option granted to the Loro Piana family for Loro Piana shares was partially exercised. Put options granted to minority interests in Ile de Beauté (35%) and Heng Long (35%) were exercised in 2016. See Note 2.

NOTE 21 – TRADE ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

21.1. Trade accounts payable

The change in trade accounts payable for the fiscal years presented breaks down as follows:

(EUR millions)	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016
As of January 1	4,541	4,384	4,157
Changes in trade accounts payable	714	311	242
Changes in amounts owed to customers	8	4	10
Changes in the scope of consolidation	7	52	(36)
Translation adjustment	50	(203)	45
Reclassifications	(5)	(7)	(34)
AS OF DECEMBER 31	**5,315**	**4,541**	**4,384**

21.2. Other current liabilities

(EUR millions)	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016
Derivatives [a]	166	45	244
Employees and social security	1,670	1,530	1,406
Employee profit sharing	105	101	103
Taxes other than income taxes	687	636	594
Advances and payments on account from customers	398	354	259
Provision for product returns [b]	356	-	-
Deferred payment for non-current assets	646	548	644
Deferred income	274	256	251
Other liabilities	1,293	1,287	1,175
TOTAL	**5,595**	**4,757**	**4,676**

(a) See Note 22.
(b) See Notes 1.2 and 1.25.

NOTE 22 – FINANCIAL INSTRUMENTS AND MARKET RISK MANAGEMENT

22.1. Organization of foreign exchange, interest rate and equity market risk management

Financial instruments are mainly used by the Group to hedge risks related to its activities and protect its assets. The management of foreign exchange and interest rate risk, in addition to transactions involving shares and financial instruments, is centralized at each sub-consolidation level.

The Group has implemented a stringent policy and rigorous management guidelines to manage, measure and monitor these market risks.

These activities are organized based on a segregation of duties between risk measurement, hedging (front office), administration (back office) and financial control.

This organization relies on information systems that allow hedging transactions to be checked quickly.

Hedging decisions are made according to a clearly established process that includes regular presentations to the management bodies concerned and detailed documentation.

Counterparties are selected based on their rating and in accordance with the Group's risk diversification strategy.

22.2. Financial assets and liabilities recognized at fair value by measurement method

	December 31, 2018			December 31, 2017			December 31, 2016		
(EUR millions)	Available for sale financial assets	Derivatives	Cash and cash equivalents (SICAV and FCP money-market funds)	Available for sale financial assets	Derivatives	Cash and cash equivalents (SICAV and FCP money-market funds)	Available for sale financial assets	Derivatives	Cash and cash equivalents (SICAV and FCP money-market funds)
Valuation based on: (a)									
Published price quotations	3,900		9,135	4,019		7,951	4,486		3,806
Formula based on market data	389	380		453	744		444	471	
Private quotations	448			318			350		
ASSETS	**4,737**	**380**	**9,135**	**4,790**	**744**	**7,951**	**5,280**	**471**	**3,806**
Valuation based on: (a)									
Published price quotations									
Formula based on market data		452			274			378	
Private quotations									
LIABILITIES		**452**			**274**			**378**	

(a) See Note 1.9 on the valuation approaches used and Note 1.2 on the retrospective application of IFRS 9 Financial Instruments as of January 1, 2016.

Derivatives used by the Group are measured at fair value according to commonly used valuation models and based on market data. The counterparty risk associated with these derivatives (i.e. the credit valuation adjustment) is assessed on the basis of credit spreads from observable market data, as well as on the basis of the derivatives' market value adjusted by flat-rate add-ons depending on the type of underlying and the maturity of the derivative. It was not significant as of December 31, 2018, December 31, 2017 and December 31, 2016.

The amount of financial assets valued on the basis of private quotations changed as follows in the fiscal year ended December 31, 2018:

(EUR millions)	**Dec. 31, 2018**
As of January 1	**318**
Acquisitions	146
Disposals (at net realized value)	(36)
Gains and losses recognized in the income statement	(4)
Gains and losses recognized in equity	32
Reclassifications	(8)
AS OF DECEMBER 31	**448**

22.3. Summary of derivatives

Derivatives are recorded in the balance sheet for the amounts and in the captions detailed as follows:

(EUR millions)		*Notes*	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016
Interest rate risk					
Assets:	Non-current		23	33	53
	Current		12	10	20
Liabilities:	Non-current		(10)	(8)	-
	Current		(12)	(6)	(12)
		22.4	**13**	**29**	**61**
Foreign exchange risk					
Assets:	Non-current		18	34	46
	Current		108	485	254
Liabilities:	Non-current		(60)	(42)	(65)
	Current		(154)	(39)	(200)
		22.5	**(88)**	**438**	**35**
Other risks					
Assets:	Non-current		216	179	69
	Current		3	3	29
Liabilities:	Non-current		(216)	(179)	(69)
	Current		-	-	(32)
		22.6	**3**	**3**	**(3)**
Total					
Assets:	Non-current	*9*	257	246	168
	Current	*12*	123	498	303
Liabilities:	Non-current	*20*	(286)	(229)	(134)
	Current	*21*	(166)	(45)	(244)
			(72)	**470**	**93**

The impact of financial instruments on the consolidated statement of comprehensive gains and losses for the fiscal year breaks down as follows:

	Foreign exchange risk [(a)]						Interest rate risk [(b)]			
	Revaluation of effective portions, of which:									
(EUR millions)	Hedges of future foreign currency cash flows	Fair value hedges	Foreign currency net investment hedges	Total	Revaluation of cost of hedging	Total	Revaluation of effective portions	Ineffective portion	Total	Total [(c)]
Changes in the income statement	(7)	196	-	189	-	189	(1)	(3)	(4)	185
Changes in consolidated gains and losses	(276)	-	(44)	(320)	(125)	(445)	(2)	2	-	(445)

(a) See Notes 1.8 and 1.21 on the principles of fair value adjustments to foreign exchange risk hedging instruments.
(b) See Notes 1.20 and 1.21 on the principles of fair value adjustments to interest rate risk hedging instruments.
(c) Gain/(Loss).

Since fair value adjustments to hedged items recognized in the balance sheet offset the effective portions of fair value hedging instruments (see Note 1.21), no ineffective portions of exchange rate hedges were recognized during the fiscal year.

22.4. Derivatives used to manage interest rate risk

The aim of the Group's debt management policy is to adapt the debt maturity profile to the characteristics of the assets held, limit borrowing costs and shield net profit from substantial fluctuations in interest rates.

For these purposes, the Group uses interest rate swaps and options.

Derivatives used to manage interest rate risk outstanding as of December 31, 2018 break down as follows:

	Nominal amounts by maturity				Market value [(a) (b)]		
(EUR millions)	Less than one year	One to five years	More than five years	Total	Fair value hedges	Not allocated	Total
Interest rate swaps in euros, floating-rate payer	343	3,290	300	3,933	21	-	21
Interest rate swaps in euros, fixed-rate payer	-	343	-	343	-	(2)	(2)
Foreign currency swaps, euro-rate payer	106	447	-	553	-	-	-
Foreign currency swaps, euro-rate receiver	69	133	-	202	(6)	-	(6)
TOTAL					**15**	**(2)**	**13**

(a) Gain/(Loss).
(b) See Note 1.9 regarding the methodology used for market value measurement.

22.5. Derivatives used to manage foreign exchange risk

A significant portion of Group companies' sales to customers and to their own distribution subsidiaries as well as certain purchases are denominated in currencies other than their functional currency; the majority of these foreign currency-denominated cash flows are intra-Group cash flows. Hedging instruments are used to reduce the risks arising from the fluctuations of currencies against the exporting and importing companies' functional currencies, and are allocated to either accounts receivable or accounts payable (fair value hedges) for the fiscal year, or to transactions anticipated for future periods (cash flow hedges).

Future foreign currency-denominated cash flows are broken down as part of the budget preparation process and are hedged progressively over a period not exceeding one year unless a longer period is justified by probable commitments. As such, and according to market trends, identified foreign exchange risks are hedged using forward contracts or options.

The Group may also use appropriate financial instruments to hedge the net worth of subsidiaries outside the eurozone, in order to limit the impact of foreign currency fluctuations against the euro on consolidated equity.

Derivatives used to manage foreign exchange risk outstanding as of December 31, 2018 break down as follows:

	Nominal amounts by fiscal year of allocation [(a)]				Market value [(b)] [(c)]				
(EUR millions)	2018	2019	Thereafter	Total	Future cash flow hedges	Fair value hedges	Foreign currency net investment hedges	Not allocated	Total
Options purchased									
Put USD	125	275	-	400	1	2	-	-	3
Put JPY	10	16	-	26	-	-	-	-	-
Put GBP	28	9	-	37	-	-	-	-	-
Other	-	27	-	27	-	1	-	-	1
	163	**327**	**-**	**490**	**1**	**3**	**-**	**-**	**4**
Collars									
Written USD	432	5,237	348	6,017	-	21	-	-	21
Written JPY	-	1,135	-	1,135	-	9	-	-	9
Written GBP	7	249	-	256	-	9	-	-	9
Written HKD	-	539	-	539	-	2	-	-	2
	439	**7,160**	**348**	**7,947**	**-**	**41**	**-**	**-**	**41**
Forward exchange contracts									
USD	292	(93)	-	199	1	3	-	-	4
HKD	106	1	-	107	-	-	-	-	-
JPY	85	-	-	85	(2)	-	-	-	(2)
CHF	(1)	(114)	-	(115)	1	3	-	-	4
RUB	33	-	-	33	1	-	-	-	1
CNY	25	-	-	25	-	-	-	-	-
GBP	20	32	43	95	-	3	-	-	3
Other	135	20	-	155	1	1	-	-	2
	695	**(154)**	**43**	**584**	**2**	**10**	**-**	**-**	**12**
Foreign exchange swaps									
USD	812	1,223	(524)	1,511	(117)	-	-	-	(117)
GBP	933	-	-	933	(11)	-	-	-	(11)
JPY	386	-	-	386	(18)	-	(1)	-	(19)
CNY	80	11	15	106	(3)	-	-	-	(3)
Other	(182)	-	-	(182)	7	-	(2)	-	5
	2,029	**1,234**	**(509)**	**2,754**	**(142)**	**-**	**(3)**	**-**	**(145)**
TOTAL	**3,326**	**8,567**	**(118)**	**11,775**	**(139)**	**54**	**(3)**	**-**	**(88)**

(a) Sale/(Purchase).
(b) See Note 1.9 regarding the methodology used for market value measurement.
(c) Gain/(Loss).

The impact on the income statement of gains and losses on hedges of future cash flows, as well as the future cash flows hedged using these instruments, will mainly be recognized in 2019; the amount will depend on exchange rates at that date.

The impact on net profit for fiscal year 2018 of a 10% change in the value of the US dollar, the Japanese yen, the Swiss franc and the Hong Kong dollar against the euro, including the impact of foreign exchange derivatives outstanding during the period, compared with the rates applying to transactions in 2018, would have been as follows:

	US dollar		Japanese yen		Swiss franc		Hong Kong dollar	
(EUR millions)	+10%	-10%	+10%	-10%	+10%	-10%	+10%	-10%
Impact of:								
- change in exchange rates of cash receipts in respect of foreign currency-denominated sales	134	(38)	41	(3)	-	-	-	-
- conversion of net profit of entities outside the eurozone	116	(116)	22	(22)	20	(20)	43	(43)
Impact on net profit	**250**	**(154)**	**63**	**(25)**	**20**	**(20)**	**43**	**(43)**

The data presented in the table above should be assessed on the basis of the characteristics of the hedging instruments outstanding in fiscal year 2018, mainly comprising options and collars.

As of December 31, 2018, forecast cash collections for 2019 in US dollars and Japanese yen are 80% hedged. For the hedged portion, the exchange rate upon sale will be at least 1.21 USD/EUR for the US dollar and at least 130 JPY/EUR for the Japanese yen.

The Group's net equity (excluding net profit) exposure to foreign currency fluctuations as of December 31, 2018 can be assessed by measuring the impact of a 10% change in the value of the US dollar, the Japanese yen, the Swiss franc and the Hong Kong dollar against the euro compared to the rates applying as of the same date:

	US dollar		Japanese yen		Swiss franc		Hong Kong dollar	
(EUR millions)	+10%	-10%	+10%	-10%	+10%	-10%	+10%	-10%
Conversion of foreign currency-denominated net assets	369	(369)	59	(59)	319	(319)	124	(124)
Change in market value of net investment hedges, after tax	(358)	183	(24)	44	(68)	56	(31)	20
Net impact on equity, excluding net profit	**11**	**(186)**	**35**	**(15)**	**251**	**(263)**	**93**	**(104)**

22.6. Financial instruments used to manage other risks

The Group's investment policy is designed to take advantage of a long-term investment horizon. Occasionally, the Group may invest in equity-based financial instruments with the aim of enhancing the dynamic management of its investment portfolio.

The Group is exposed to the risk of share price changes, either directly (as a result of its full or partial holding of subsidiaries and equity investments, and current available for sale financial assets) or indirectly (as a result of its holding of funds that are themselves fully or partially invested in shares).

The Group may also use equity-based derivatives to synthetically create an economic exposure to certain assets, to hedge cash-settled compensation plans index-linked to the LVMH share price, or to hedge certain risks related to changes in the LVMH share price. If applicable, the carrying amount of these unlisted financial instruments corresponds to the estimate of the amount, provided by the counterparty, of the valuation at the balance sheet date. The valuation of financial instruments thus takes into consideration market parameters such as interest rates and share prices.

The Group – mainly through its Watches and Jewelry business group – may be exposed to changes in the prices of certain precious metals, such as gold. In certain cases, in order to ensure visibility with regard to production costs, hedges may be implemented. This is achieved either by negotiating the forecast price of future deliveries of alloys with precious metal refiners, or the price of semi-finished products with producers; or directly by purchasing hedges from top-ranking banks. In the latter case, gold may be purchased from banks, or future and/or options contracts may be taken out with a physical delivery of the gold. Derivatives outstanding relating to the hedging of precious metal prices as of December 31, 2018 have a positive market value of 3 million euros. Considering nominal values of 158 million euros for those derivatives, a uniform 1% change in their underlying assets' prices as of December 31, 2018 would have a net impact on the Group's consolidated reserves in an amount of less than 1 million euros. These instruments mature in 2019.

22.7. Liquidity risk

In addition to local liquidity risks, which are generally immaterial, the Group's exposure to liquidity risk can be assessed by (a) looking at the outstanding amount of its short-term negotiable debt securities programs (4.0 billion euros), and (b) comparing the amount of short-term borrowings excluding derivatives (11.4 billion euros) to the amount of cash and cash equivalents (9.1 billion euros), i.e. a balance of 2.3 billion euros as of December 31, 2018. Should any of these borrowing facilities not be renewed, the Group has access to undrawn confirmed credit lines totaling 7.4 billion euros.

The Group's liquidity is based on the amount of its investments, its capacity to raise long-term borrowings, the diversity of its investor base (short-term debt securities and bonds), and the quality of its banking relationships, whether evidenced or not by confirmed lines of credit.

The following table presents the contractual schedule of disbursements for financial liabilities (excluding derivatives) recognized as of December 31, 2018, at nominal value and with interest, excluding discounting effects:

(EUR millions)	2019	2020	2021	2022	2023	More than five years	Total
Bonds and EMTNs	1,548	1,887	1,682	1,385	9	1,209	7,720
Bank borrowings	4,769	591	717	665	1,007	3	7,752
Other borrowings and credit facilities	944	-	-	-	-	-	944
Finance and other long-term leases	31	32	31	29	25	682	830
Short-term negotiable debt securities [(a)]	3,987	-	-	-	-	-	3,987
Bank overdrafts	198	-	-	-	-	-	198
Gross borrowings	**11,477**	**2,510**	**2,430**	**2,079**	**1,041**	**1,894**	**21,431**
Other current and non-current liabilities [(b)]	5,155	68	29	26	23	107	5,408
Trade accounts payable	5,315	-	-	-	-	-	5,315
Other financial liabilities	10,470	68	29	26	23	107	10,723
TOTAL FINANCIAL LIABILITIES	**21,947**	**2,578**	**2,459**	**2,105**	**1,064**	**2,001**	**32,154**

(a) Euro- and US dollar-denominated commercial paper.
(b) Corresponds to "Other current liabilities" (excluding derivatives and deferred income) for 5,155 million euros and to "Other non-current liabilities" (excluding derivatives, purchase commitments for minority interests' shares and deferred income of 222 million euros as of December 31, 2018) for 253 million euros.

See Note 30.3 regarding contractual maturity dates of collateral and other guarantee commitments, Notes 18.5 and 22.5 regarding foreign exchange derivatives, and Note 22.4 regarding interest rate risk derivatives.

NOTE 23 – SEGMENT INFORMATION

The Group's brands and trade names are organized into six business groups. Four business groups – Wines and Spirits, Fashion and Leather Goods, Perfumes and Cosmetics and Watches and Jewelry – comprise brands dealing with the same category of products that use similar production and distribution processes. Information on Louis Vuitton and Bvlgari is presented according to the brand's main business, namely the Fashion and Leather Goods business group for Louis Vuitton and the Watches and Jewelry business group for Bvlgari. The Selective Retailing business group comprises the Group's own-label retailing activities. Other activities and holding companies comprise brands and businesses that are not associated with any of the above-mentioned business groups, particularly the media division, the Dutch luxury yacht maker Royal Van Lent, hotel operations and holding or real estate companies.

Following the sale within the consolidated group of the Christian Dior Couture segment by Christian Dior SE to LVMH SE on July 3, 2017, information for Christian Dior Couture is included in figures for the Fashion and Leather Goods business group for all the periods presented.

Rimowa has been consolidated as part of the Fashion and Leather Goods business group since January 2017.

23.1. Information by business group

Fiscal year 2018

(EUR millions)	Wines and Spirits	Fashion and Leather Goods	Perfumes and Cosmetics	Watches and Jewelry	Selective Retailing	Other and holding companies	Eliminations and not allocated [a]	Total
Sales outside the Group	5,115	18,389	5,015	4,012	13,599	701	-	46,831
Intra-Group sales	28	66	1,077	111	47	19	(1,348)	-
TOTAL REVENUE	**5,143**	**18,455**	**6,092**	**4,123**	**13,646**	**720**	**(1,348)**	**46,831**
Profit from recurring operations	1,629	5,943	676	703	1,382	(273)	(60)	10,000
Other operating income and expenses	(3)	(10)	(16)	(4)	(5)	(88)	-	(126)
Depreciation and amortization expense	(155)	(759)	(275)	(238)	(461)	(71)	-	(1,959)
Impairment expense	(7)	(5)	0	(1)	(2)	(97)	-	(112)
Intangible assets and goodwill [b]	8,195	7,573	2,123	5,791	3,430	1,649	-	28,761
Property, plant and equipment	2,871	3,193	677	576	1,817	5,348	(7)	14,475
Inventories	5,471	2,364	842	1,609	2,532	198	(356)	12,660
Other operating assets	1,449	1,596	1,401	721	870	976	17,605 [c]	24,618
TOTAL ASSETS	**17,986**	**14,726**	**5,043**	**8,697**	**8,649**	**8,171**	**17,242**	**80,514**
Equity							30,836	30,836
Liabilities	1,580	4,262	2,115	1,075	3,005	1,262	36,379 [d]	49,678
TOTAL LIABILITIES AND EQUITY	**1,580**	**4,262**	**2,115**	**1,075**	**3,005**	**1,262**	**67,215**	**80,514**
Operating investments [e]	(298)	(827)	(330)	(303)	(537)	(743)	-	(3,038)

Fiscal year 2017

(EUR millions)	Wines and Spirits	Fashion and Leather Goods	Perfumes and Cosmetics	Watches and Jewelry	Selective Retailing	Other and holding companies	Eliminations and not allocated [a]	Total
Sales outside the Group	5,051	16,467	4,532	3,721	13,266	630	-	43,667
Intra-Group sales	33	52	1,028	84	45	35	(1,277)	-
TOTAL REVENUE	**5,084**	**16,519**	**5,560**	**3,805**	**13,311**	**665**	**(1,277)**	**43,667**
Profit from recurring operations	1,558	5,022	600	512	1,075	(370)	(48)	8,349
Other operating income and expenses	(18)	(31)	(8)	(78)	(42)	(2)	-	(179)
Depreciation and amortization expense	(159)	(742)	(254)	(223)	(452)	(65)	-	(1,895)
Impairment expense	1	0	0	(50)	(58)	(2)	-	(109)
Intangible assets and goodwill [b]	8,313	7,477	1,997	5,684	3,348	1,754	-	28,573
Property, plant and equipment	2,740	3,058	607	537	1,701	4,593	(7)	13,229
Inventories	5,115	1,884	634	1,420	2,111	174	(293)	11,045
Other operating assets	1,449	1,234	1,108	598	845	1,284	16,936 [c]	23,454
TOTAL ASSETS	**17,617**	**13,653**	**4,346**	**8,239**	**8,005**	**7,805**	**16,636**	**76,301**
Equity							26,893	26,893
Liabilities	1,544	3,539	1,706	895	2,839	1,255	37,630 [d]	49,408
TOTAL LIABILITIES AND EQUITY	**1,544**	**3,539**	**1,706**	**895**	**2,839**	**1,255**	**64,523**	**76,301**
Operating investments [e]	(292)	(804)	(286)	(269)	(570)	(296)	1	(2,516)

Fiscal year 2016

(EUR millions)	Wines and Spirits	Fashion and Leather Goods	Perfumes and Cosmetics	Watches and Jewelry	Selective Retailing	Other and holding companies	Elimi-nations and not allocated [(a)]	Total
Sales outside the Group	4,805	14,648	4,079	3,407	11,935	629	-	39,503
Intra-Group sales	30	63	874	61	38	35	(1,101)	-
TOTAL REVENUE	**4,835**	**14,711**	**4,953**	**3,468**	**11,973**	**664**	**(1,101)**	**39,503**
Profit from recurring operations	1,504	4,125	551	455	919	(269)	(35)	7,250
Other operating income and expenses	(60)	7	(9)	(30)	(64)	31	-	(125)
Depreciation and amortization expense	(148)	(744)	(212)	(208)	(399)	(53)	-	(1,764)
Impairment expense	(4)	(34)	(1)	(32)	(62)	(2)	-	(135)
Intangible assets and goodwill [(b)]	7,220	6,715	2,022	5,871	3,692	1,781	-	27,301
Property, plant and equipment	2,613	2,955	585	529	1,777	4,537	(22)	12,974
Inventories	4,920	1,902	581	1,403	2,172	385	(284)	11,079
Other operating assets	1,419	1,244	948	720	908	981	12,956 [(c)]	19,176
TOTAL ASSETS	**16,172**	**12,816**	**4,136**	**8,523**	**8,549**	**7,684**	**12,650**	**70,530**
Equity							33,825	33,825
Liabilities	1,524	3,125	1,593	918	2,924	1,196	25,425 [(d)]	36,705
TOTAL LIABILITIES AND EQUITY	**1,524**	**3,125**	**1,593**	**918**	**2,924**	**1,196**	**59,250**	**70,530**
Operating investments [(e)]	(276)	(680)	(268)	(229)	(558)	(434)	7	(2,438)

(a) Eliminations correspond to sales between business groups; these generally consist of sales to Selective Retailing from other business groups. Selling prices between the different business groups correspond to the prices applied in the normal course of business for sales transactions to wholesalers or distributors outside the Group.
(b) Intangible assets and goodwill correspond to the carrying amounts shown in Notes 3 and 4.
(c) Assets not allocated include available for sale financial assets, other financial assets, and current and deferred tax assets.
(d) Liabilities not allocated include financial debt, current and deferred tax liabilities, and liabilities related to purchase commitments for minority interests' shares.
(e) Increase/(Decrease) in cash and cash equivalents.

23.2. Information by geographic region

Revenue by geographic region of delivery breaks down as follows:

(EUR millions)	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016
France	4,496	4,293	3,977
Europe (excluding France)	8,731	8,215	7,243
United States	11,207	10,793	10,214
Japan	3,351	3,008	2,793
Asia (excluding Japan)	13,723	12,259	10,596
Other countries	5,323	5,099	4,680
REVENUE	**46,831**	**43,667**	**39,503**

Operating investments by geographic region are as follows:

(EUR millions)	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016
France	1,054	934	842
Europe (excluding France)	539	459	421
United States	765	399	518
Japan	80	252	76
Asia (excluding Japan)	411	318	359
Other countries	189	154	222
OPERATING INVESTMENTS	**3,038**	**2,516**	**2,438**

No geographic breakdown of segment assets is provided since a significant portion of these assets consists of brands and goodwill, which must be analyzed on the basis of the revenue generated by these assets in each region, and not in relation to the region of their legal ownership.

23.3. Quarterly information

Quarterly revenue by business group breaks down as follows:

(EUR millions)	Wines and Spirits	Fashion and Leather Goods [(a)]	Perfumes and Cosmetics	Watches and Jewelry	Selective Retailing	Other and holding companies	Elimi-nations	Total
First quarter	1,195	4,270	1,500	959	3,104	161	(335)	10,854
Second quarter	1,076	4,324	1,377	1,019	3,221	187	(307)	10,897
Third quarter	1,294	4,458	1,533	1,043	3,219	174	(341)	11,380
Fourth quarter	1,578	5,403	1,682	1,102	4,102	198	(365)	13,700
2018 TOTAL	**5,143**	**18,455**	**6,092**	**4,123**	**13,646**	**720**	**(1,348)**	**46,831**
First quarter	1,196	3,911	1,395	879	3,154	170	(324)	10,381
Second quarter	1,098	4,035 [(b)]	1,275	959	3,126	168	(297)	10,364
Third quarter	1,220	3,939	1,395	951	3,055	147	(326)	10,381
Fourth quarter	1,570	4,634	1,495	1,016	3,976	180	(330)	12,541
2017 TOTAL	**5,084**	**16,519**	**5,560**	**3,805**	**13,311**	**665**	**(1,277)**	**43,667**
First quarter	1,033	3,394	1,213	774	2,747	157	(277)	9,041
Second quarter	1,023	3,384	1,124	835	2,733	172	(246)	9,025
Third quarter	1,225	3,608	1,241	877	2,803	150	(272)	9,632
Fourth quarter	1,554	4,325	1,375	982	3,690	185	(306)	11,805
2016 TOTAL	**4,835**	**14,711**	**4,953**	**3,468**	**11,973**	**664**	**(1,101)**	**39,503**

(a) Following the sale within the consolidated group of the Christian Dior Couture segment by Christian Dior SE to LVMH SE on July 3, 2017, information for Christian Dior Couture is included in figures for the Fashion and Leather Goods business group for all the periods presented.
(b) Including the entire revenue of Rimowa for the first half of 2017.

NOTE 24 – REVENUE AND EXPENSES BY NATURE

24.1. Breakdown of revenue

Revenue consists of the following:

(EUR millions)	2018	2017	2016
Revenue generated by brands and trade names	46,427	43,250	39,077
Royalties and license revenue	114	108	131
Income from investment property	23	18	11
Other revenue	267	291	284
TOTAL	**46,831**	**43,667**	**39,503**

The portion of total revenue generated by the Group at its own stores, including sales through e-commerce websites, was approximately 69% of revenue for the fiscal year ended December 31, 2018 (70% of revenue for the fiscal year ended December 31, 2017 and 66% of revenue for the fiscal year ended December 31, 2016), i.e. 32,081 million euros as of December 31, 2018 (30,512 million euros as of December 31, 2017 and 14,159 million euros as of December 31, 2016).

24.2. Expenses by nature

Profit from recurring operations includes the following expenses:

(EUR millions)	2018	2017	2016
Advertising and promotion expenses	5,518	4,961	4,439
Lease expenses	3,678	3,920	3,683
Personnel costs	8,295	7,925	7,139
Research and development expenses	130	130	113

Advertising and promotion expenses mainly consist of the cost of media campaigns and point-of-sale advertising, and also include personnel costs dedicated to this function.

As of December 31, 2018, a total of 4,592 stores were operated by the Group worldwide (4,374 as of December 31, 2017; 4,148 as of December 31, 2016), particularly by Fashion and Leather Goods and Selective Retailing.

In certain countries, leases for stores entail the payment of both minimum amounts and variable amounts, especially for stores with lease payments indexed to revenue. The total lease expense for the Group's stores breaks down as follows:

(EUR millions)	2018	2017	2016
Fixed or minimum lease payments	1,910	1,926	1,828
Variable portion of indexed leases	911	846	717
Airport concession fees – Fixed portion or minimum amount	466	550	580
Airport concession fees – Variable portion	391	598	558
COMMERCIAL LEASE EXPENSES	**3,678**	**3,920**	**3,683**

Personnel costs consist of the following elements:

(EUR millions)	2018	2017	2016
Salaries and social security contributions	8,081	7,739	6,973
Pensions, contribution to medical costs and expenses in respect of defined-benefit plans [(a)]	127	113	115
Expenses related to stock option and similar plans [(b)]	87	73	51
PERSONNEL COSTS	**8,295**	**7,925**	**7,139**

(a) See Note 29.
(b) See Note 16.4.

The average full-time equivalent workforce broke down as follows by professional category during the fiscal years presented:

(in number and as %)	2018	%	2017	%	2016	%
Executives and managers	27,924	21	25,898	20	24,748	20
Technicians and supervisors	14,057	10	13,455	10	13,237	11
Administrative and sales staff	76,772	56	72,981	57	70,539	56
Production workers	17,880	13	16,303	13	15,900	13
TOTAL	**136,633**	**100**	**128,637**	**100**	**124,424**	**100**

24.3. Statutory Auditors' fees

The amount of fees paid to the Statutory Auditors of Financière Agache SA and members of their networks recorded in the consolidated income statement for the 2018 fiscal year breaks down as follows:

			2018
(EUR millions, excluding VAT)	ERNST & YOUNG et Autres	MAZARS	Total
Audit-related fees	**10**	**7**	**17**
Tax services	3	NS	3
Other	1	NS	1
Total non-audit-related fees	**4**	**NS**	**4**
TOTAL	**14**	**7**	**21**

NS: Not significant.

Services provided during the fiscal year by the Statutory Auditors of Financière Agache SA other than certifying the financial statements were not material, and corresponded to (i) services other than certifying the financial statements required by applicable laws and regulations for ERNST & YOUNG et Autres and (ii) services other than certifying the financial statements required by applicable laws and regulations, attestations, and agreed-upon procedures for MAZARS.

In addition to tax services – which are mainly performed outside France to ensure that the Group's subsidiaries and expatriates meet their local tax filing obligations – non-audit-related services include various types of certifications, mainly those required by landlords concerning the revenue of certain stores, and specific checks run at the Group's request.

NOTE 25 – OTHER OPERATING INCOME AND EXPENSES

(EUR millions)	2018	2017	2016
Net gains/(losses) on disposals	(5)	(14)	40
Restructuring costs	1	(19)	-
Transaction costs relating to the acquisition of consolidated companies	(10)	(13)	(3)
Impairment or amortization of brands, trade names, goodwill and other fixed assets	(117)	(129)	(155)
Other items, net	5	(4)	(7)
OTHER OPERATING INCOME AND EXPENSES	**(126)**	**(179)**	**(125)**

Impairment and amortization expenses are mostly for brands and goodwill.

For the 2016 fiscal year, "Net gains/(losses) on disposals" included the gain related to the sale of Donna Karan International to G-III Apparel Group (see Note 2).

NOTE 26 – NET FINANCIAL INCOME/(EXPENSE)

(EUR millions)	2018	2017	2016
Borrowing costs	(272)	(233)	(226)
Income from cash, cash equivalents, current available for sale financial assets, and receivables	71	48	44
Fair value adjustment of borrowings and interest rate hedges	(3)	(1)	(1)
Cost of net financial debt	**(204)**	**(186)**	**(183)**
Income/(loss) from non-operating joint ventures and associates	24	20	1
Dividends received from non-current available for sale financial assets	39	47	36
Cost of foreign exchange derivatives	(175)	(169)	(195)
Fair value adjustment of available for sale financial assets	(99)	214	62
Other items, net	(26)	(66)	(36)
Other financial income and expenses	**(261)**	**26**	**(133)**
NET FINANCIAL INCOME/(EXPENSE)	**(441)**	**(140)**	**(315)**

Income from cash, cash equivalents, current available for sale financial assets, and receivables comprises the following items:

(EUR millions)	2018	2017	2016
Income from cash and cash equivalents	26	20	15
Income from loans and receivables and current available for sale financial assets	45	28	29
INCOME FROM CASH, CASH EQUIVALENTS, CURRENT AVAILABLE FOR SALE FINANCIAL ASSETS, AND RECEIVABLES	**71**	**48**	**44**

The fair value adjustment of borrowings and interest rate hedges is attributable to the following items:

(EUR millions)	2018	2017	2016
Hedged financial debt	1	28	(10)
Hedging instruments	(1)	(30)	9
Unallocated derivatives	(3)	1	-
FAIR VALUE ADJUSTMENT OF BORROWINGS AND INTEREST RATE HEDGES	**(3)**	**(1)**	**(1)**

The cost of foreign exchange derivatives for the fiscal years presented broke down as follows:

(EUR millions)	2018	2017	2016
Cost of commercial foreign exchange derivatives	(159)	(174)	(186)
Cost of foreign exchange derivatives related to net investments denominated in foreign currency	4	(3)	9
Cost and other items related to foreign exchange derivatives	(20)	8	(18)
INEFFECTIVE PORTION OF FOREIGN EXCHANGE DERIVATIVES	**(175)**	**(169)**	**(195)**

NOTE 27 – INCOME TAXES

27.1. Breakdown of the income tax expense

(EUR millions)	2018	2017	2016
Current income taxes for the fiscal year	(2,660)	(2,927)	(2,772)
Current income taxes relating to previous fiscal years	76	599	(16)
Current income taxes	**(2,584)**	**(2,328)**	**(2,788)**
Change in deferred income taxes	57	12	255
Impact of changes in tax rates on deferred income taxes	(1)	50	417
Deferred tax	**56**	**62**	**672**
TOTAL TAX EXPENSE PER INCOME STATEMENT	**(2,528)**	**(2,266)**	**(2,116)**
TAX ON ITEMS RECOGNIZED IN EQUITY [(a)]	**111**	**(213)**	**109**

(a) Including -143 million euros as of December 31, 2017, corresponding to the tax on the capital gain arising from the sale of the Christian Dior Couture segment to LVMH after taking into account tax loss carryforwards. See Note 2.

In October 2017, the French Constitutional Court struck down the French dividend tax introduced in 2012, which required French companies to pay a tax equal to 3% of dividends paid. In order to finance the corresponding reimbursement, an exceptional surtax was introduced, which raised the income tax payable by French companies in respect of fiscal year 2017 by 15% or 30%, depending on the company's revenue bracket. The reimbursement received, including interest on arrears and net of the exceptional surtax, represented income in the amount of 345 million euros.

In 2017, changes in tax rates had two opposing impacts on deferred tax. On the one hand, the 2018 Budget Act in France continued the gradual reduction of the corporate tax rate initiated by the 2017 Budget Act, lowering the tax rate to 25.83% from 2022; long-term deferred taxes of the Group's French entities – essentially relating to acquired brands – were thus revalued based on the rate applicable from 2022. On the other hand, the tax reform signed into law in the United States lowered the overall corporate income tax rate from 40% to 27% beginning in fiscal year 2018; deferred taxes (essentially deferred tax assets) of entities that are taxable in the United States were thus revalued.

During the fiscal year ended December 31, 2016, the impact of changes in tax rates on deferred taxes mainly resulted from the provisions of the 2017 Budget Act in France, which lowers the corporate tax rate to 28.92% starting in 2020. As a result, long-term deferred taxes – essentially related to acquired brands – were revalued based on the rate applicable as of 2020.

27.2. Breakdown of the net deferred tax asset/(liability)

The net deferred tax asset/(liability) broke down as follows:

(EUR millions)	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016
Deferred tax assets	1,937	1,747	2,177
Deferred tax liabilities	(4,603)	(4,549)	(4,877)
NET DEFERRED TAX ASSET/(LIABILITY)	**(2,666)**	**(2,802)**	**(2,700)**

27.3. Breakdown of the difference between statutory and effective tax rates

The effective tax rate is as follows:

(EUR millions)	2018	2017	2016
Profit before tax	9,433	8,030	6,810
Of which: Joint ventures and associates subject to corporate income tax	24	20	1
Taxable profit before tax	**9,409**	**8,010**	**6,809**
Total tax expense	(2,528)	(2,266)	(2,116)
EFFECTIVE TAX RATE	**26.9%**	**28.3%**	**31.1%**

The statutory tax rate – which is the rate applicable by law to the Group's French companies, including the 3.3% social security contribution – may be reconciled as follows to the effective tax rate disclosed in the consolidated financial statements:

(as % of income before tax)	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016
French statutory tax rate	**34.4**	**34.4**	**34.4**
Changes in tax rates (a)	-	(2.2)	(6.1)
Differences in tax rates for foreign companies	(8.9)	(6.5)	(5.6)
Tax losses, tax loss carryforwards and other changes in deferred tax	0.7	1.1	0.7
Differences between consolidated and taxable income, and income taxable at reduced rates (b)	(1.0)	4.4	4.8
Tax on dividend payments applicable to French companies, net of the exceptional surtax on corporate income tax	-	(4.4)	1.2
Tax on distribution (c)	1.7	1.5	1.7
EFFECTIVE TAX RATE OF THE GROUP	**26.9**	**28.3**	**31.1**

(a) See Note 27.1.
(b) Mainly resulting from the impact of the tax relief ("sursis d'imposition") on the Hermès shares tendered in exchange for Christian Dior shares, whereas an accounting profit was recognized.
(c) Tax on distribution is mainly related to intra-Group dividends.

In 2018, the wider gap in tax rates between foreign and French companies mainly resulted from the impact of tax reform in the United States, which reduced the country's corporate income tax rate by 13 points, with the overall tax rate going from 40% to 27%.

27.4. Sources of deferred tax

In the income statement [(a)]

(EUR millions)	2018	2017	2016
Valuation of brands	(1)	199	540
Other revaluation adjustments	2	68	52
Gains and losses on available for sale financial assets	6	(51)	(1)
Gains and losses on hedges of future foreign currency cash flows	(3)	3	17
Provisions for contingencies and losses	(63)	(74)	45
Intra-Group margin included in inventories	85	(44)	12
Other consolidation adjustments	14	(15)	(20)
Losses carried forward	16	(24)	27
TOTAL	**56**	**62**	**672**

(a) Income/(Expenses).

In the statement of changes in equity [(a)]

(EUR millions)	2018	2017	2016
Fair value adjustment of vineyard land	(2)	82	108
Gains and losses on available for sale financial assets	23	31	(29)
Gains and losses on hedges of future foreign currency cash flows	112	(111)	24
Gains and losses on employee benefit commitments	(5)	(24)	17
TOTAL	**128**	**(22)**	**120**

(a) Gains/(Losses).

In the balance sheet [(a)]

(EUR millions)	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016
Valuation of brands	(3,629)	(3,599)	(3,813)
Fair value adjustment of vineyard land	(574)	(565)	(650)
Other revaluation adjustments	(280)	(282)	(316)
Gains and losses on available for sale financial assets	(65)	(61)	2
Gains and losses on hedges of future foreign currency cash flows	50	(53)	49
Provisions for contingencies and losses	551	596	734
Intra-Group margin included in inventories	795	707	774
Other consolidation adjustments	448	430	460
Losses carried forward	38	25	60
TOTAL	**(2,666)**	**(2,802)**	**(2,700)**

(a) Asset/(Liability).

27.5. Tax consolidation

- France's tax consolidation system allows virtually all of the Group's French companies to combine their taxable profits to calculate the overall tax expense, for which only the parent company is liable.

  Financière Agache and its French subsidiaries in which it has an ownership interest of more than 95% are part of a tax consolidation group, the parent company of which is Groupe Arnault SEDCS.

  In 2017 and prior fiscal years, Christian Dior and most of its French subsidiaries in which it had an ownership interest of more than 95% comprised a tax consolidation group, of which it was the parent company.

  As of January 1, 2018, Christian Dior SE and its French subsidiaries in which it has an ownership interest of more than 95% joined the tax consolidation group whose parent company is Groupe Arnault.

  LVMH SE and most of its French subsidiaries in which it has an ownership interest of more than 95% comprise another tax consolidation group, the parent company of which is LVMH SE. The estimated impact on the current tax expense of this tax consolidation group amounted to a 225 million euro decrease in the tax expense in the fiscal year ended December 31, 2018 (6 million euro increase in the tax expense in 2017; 37 million euro decrease in the tax expense in 2016).
- The other tax consolidation systems in place, particularly in the United States, generated current tax savings of 61 million euros in the fiscal year ended December 31, 2018 (85 million euros as of December 31, 2017; 49 million euros as of December 31, 2016).

27.6. Losses carried forward

As of December 31, 2018, unused tax loss carryforwards and tax credits for which no deferred tax assets were recognized had a potential positive impact on the future tax expense of 677 million euros (637 million euros as of December 31, 2017 and 710 million euros as of December 31, 2016).

NOTE 28 – EARNINGS PER SHARE

	2018	2017	2016
Net profit, Group share *(EUR millions)*	**2,499**	**1,990**	**1,346**
Impact of dilutive instruments on the subsidiaries *(EUR millions)*	(8)	(14)	(7)
NET PROFIT, DILUTED GROUP SHARE *(EUR millions)*	**2,491**	**1,976**	**1,339**
Average number of shares outstanding during the fiscal year	3,173,352	3,173,352	3,173,352
Average number of Financière Agache treasury shares owned during the fiscal year	(3,619)	(3,619)	(3,619)
Average number of shares on which the calculation before dilution is based	**3,169,733**	**3,169,733**	**3,169,733**
BASIC GROUP SHARE OF NET EARNINGS PER SHARE *(EUR)*	**788.39**	**627.81**	**424.64**
Average number of shares outstanding on which the above calculation is based	3,169,733	3,169,733	3,169,733
Dilutive effect of stock option plans	-	-	-
Average number of shares on which the calculation after dilution is based	**3,169,733**	**3,169,733**	**3,169,733**
DILUTED GROUP SHARE OF NET EARNINGS PER SHARE *(EUR)*	**785.87**	**623.40**	**422.43**

As of December 31, 2018, all of the instruments that may dilute earnings per share have been taken into consideration when determining the dilutive effect.

No events occurred between December 31, 2018 and April 26, 2019 (the date at which the financial statements were approved for publication) that would have significantly affected the number of shares outstanding or the potential number of shares.

NOTE 29 – PROVISIONS FOR PENSIONS, CONTRIBUTION TO MEDICAL COSTS AND OTHER EMPLOYEE BENEFIT COMMITMENTS

29.1. Expense for the fiscal year

The expense recognized in the fiscal years presented for provisions for pensions, contribution to medical costs and other employee benefit commitments is as follows:

(EUR millions)	**2018**	**2017**	**2016**
Service cost	113	110	101
Net interest cost	12	13	13
Actuarial gains and losses	(1)	-	1
Changes in plans	3	(10)	-
TOTAL EXPENSE FOR THE FISCAL YEAR FOR DEFINED-BENEFIT PLANS	**127**	**113**	**115**

29.2. Net recognized commitment

(EUR millions)	*Notes*	**Dec. 31, 2018**	**Dec. 31, 2017**	**Dec. 31, 2016**
Benefits covered by plan assets		1,515	1,490	1,524
Benefits not covered by plan assets		189	179	209
Defined-benefit obligation		**1,704**	**1,669**	**1,733**
Market value of plan assets		**(1,137)**	**(1,077)**	**(1,039)**
NET RECOGNIZED COMMITMENT		**567**	**592**	**694**
Of which:				
Non-current provisions	*19*	605	625	715
Current provisions	*19*	7	4	5
Other assets		(45)	(37)	(26)
TOTAL		**567**	**592**	**694**

29.3. Breakdown of the change in the net recognized commitment

(EUR millions)	Defined-benefit obligation	Market value of plan assets	Net recognized commitment
As of December 31, 2017	**1,669**	**(1,077)**	**592**
Service cost	113	-	113
Net interest cost	30	(19)	11
Payments to recipients	(83)	58	(25)
Contributions to plan assets	-	(106)	(106)
Contributions by employees	9	(9)	-
Changes in scope and reclassifications	-	-	-
Changes in plans	(1)	5	4
Actuarial gains and losses	(68)	41	(27)
Of which: experience adjustments [(a)]	4	41	45
changes in demographic assumptions [(a)]	(40)	-	(40)
changes in financial assumptions [(a)]	(32)	-	(32)
Translation adjustment	35	(30)	5
AS OF DECEMBER 31, 2018	**1,704**	**(1,137)**	**567**

(a) (Gains)/Losses.

Actuarial gains and losses resulting from experience adjustments related to the past four fiscal years were as follows:

(EUR millions)	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2017
Experience adjustments on the defined-benefit obligation	3	(11)	(1)	4
Experience adjustments on the market value of plan assets	(28)	(12)	(25)	(49)
ACTUARIAL GAINS AND LOSSES RESULTING FROM EXPERIENCE ADJUSTMENTS [(a)]	**(25)**	**(23)**	**(26)**	**(45)**

(a) (Gains)/Losses.

The actuarial assumptions applied to estimate commitments as of December 31, 2018 in the main countries concerned were as follows:

	2018					2017					2016				
(as %)	France	United States	United Kingdom	Japan	Switzer-land	France	United States	United Kingdom	Japan	Switzer-land	France	United States	United Kingdom	Japan	Switzer-land
Discount rate [(a)]	1.50	4.43	2.90	0.50	0.83	1.50	3.70	2.60	0.50	0.65	1.30	3.92	2.80	0.50	0.11
Future rate of increase of salaries	2.75	4.59	3.38	1.99	1.74	2.68	1.70	3.53	2.00	1.69	2.75	4.88	4.00	2.00	1.77

(a) Discount rates were determined with reference to market yields of AA-rated corporate bonds at the period-end in the countries concerned. Bonds with maturities comparable to those of the commitments were used.

The assumed rate of increase of medical expenses in the United States is 6.40% for 2019, after which it is assumed to decline progressively to reach 4.50% in 2037.

A 0.5-point increase in the discount rate would result in a 114 million euro reduction in the amount of the defined-benefit obligation as of December 31, 2018; a 0.5-point decrease in the discount rate would result in a 112 million euro increase.

29.4. Breakdown of benefit obligations

The defined-benefit obligation breaks down as follows by type of benefit plan:

(EUR millions)	**Dec. 31, 2018**	**Dec. 31, 2017**	**Dec. 31, 2016**
Supplementary pensions	1,300	1,279	1,352
Retirement bonuses and similar benefits	326	311	299
Medical costs of retirees	42	45	53
Long-service awards	27	25	24
Other	9	9	5
DEFINED-BENEFIT OBLIGATION	**1,704**	**1,669**	**1,733**

The geographic breakdown of the defined-benefit obligation is as follows:

(EUR millions)	**Dec. 31, 2018**	**Dec. 31, 2017**	**Dec. 31, 2016**
France	615	579	576
Europe (excluding France)	556	569	623
United States	347	344	347
Japan	136	125	130
Asia (excluding Japan)	41	44	50
Other countries	9	8	7
DEFINED-BENEFIT OBLIGATION	**1,704**	**1,669**	**1,733**

The main components of the Group's net commitment for retirement and other defined-benefit obligations as of December 31, 2018 are as follows:

- in France, these commitments include the commitment to certain members of the Group's management bodies who are covered by a supplementary pension plan after a certain number of years of service, the amount of which is determined on the basis of the average of their three highest amounts of annual compensation; they also include end-of-career bonuses and long-service awards, the payment of which is determined by French law and collective bargaining agreements, respectively upon retirement or after a certain number of years of service;
- in Europe (excluding France), commitments concern defined-benefit pension plans set up in the United Kingdom by certain Group companies; participation by Group companies in Switzerland in the mandatory Swiss occupational pension plan, the LPP (Loi pour la Prévoyance Professionnelle); and in Italy the TFR (Trattamento di Fine Rapporto), a legally required end-of-service allowance, paid regardless of the reason for the employee's departure from the company;
- in the United States, the commitment relates to defined-benefit pension plans or retiree healthcare coverage set up by certain Group companies.

29.5. Breakdown of related plan assets

The market value of plan assets breaks down as follows by type of investment:

(as % of market value of related plan assets)	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016
Shares	23	25	28
Bonds:			
- private issues	36	36	34
- public issues	5	6	8
Cash, investment funds, real estate and other assets	36	33	30
TOTAL	**100**	**100**	**100**

These assets do not include any debt securities issued by Group companies, nor any LVMH or Christian Dior shares for significant amounts. The Group plans to increase the related plan assets in 2019 by paying in approximately 120 million euros.

NOTE 30 – OFF-BALANCE SHEET COMMITMENTS

30.1. Purchase commitments

(EUR millions)	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016
Grapes, wines and eaux-de-vie	2,040	1,925	1,962
Other purchase commitments for raw materials	215	123	87
Industrial and commercial fixed assets	721	525	785
Investments in joint venture shares and non-current available for sale financial assets	2,153	208	979

Some Wines and Spirits companies have contractual purchase arrangements with various local producers for the future supply of grapes, still wines and eaux-de-vie. These commitments are valued, depending on the nature of the purchases, on the basis of the contractual terms or known fiscal year-end prices and estimated production yields.

As of December 31, 2018, share purchase commitments included the impact of LVMH's commitment to acquire, for cash, all the Class A shares of Belmond Ltd at a unit price of 25 US dollars, for a total of 2.3 billion US dollars, after taking into account the shares acquired on the market in December 2018. Belmond owns and operates an exceptional portfolio of very high-end hotels and travel experiences in the world's most desirable, prestigious locations. The company operates in 24 countries and is listed on the New York Stock Exchange. The transaction should be finalized in the first half of 2019, subject to approval by Belmond's shareholders and certain competition authorities.

As of December 31, 2016, purchase commitments for shares and non-current available for sale financial assets included the amount related to the acquisition of Rimowa. See Note 2.

As of December 31, 2018, the maturity dates of these commitments were as follows:

(EUR millions)	Less than one year	One to five years	More than five years	Total
Grapes, wines and eaux-de-vie	659	1,346	35	2,040
Other purchase commitments for raw materials	123	91	1	215
Industrial and commercial fixed assets	601	121	(1)	721
Investments in joint venture shares and non-current available for sale financial assets	2,051	102	-	2,153

30.2. Leases

In connection with its business activities, the Group enters into agreements for the rental of premises or airport concession contracts. The Group also finances a portion of its equipment through long-term operating leases.

The fixed or minimum portions of commitments in respect of the irrevocable period of operating lease or concession contracts were as follows as of December 31, 2018:

(EUR millions)	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016
Less than one year	2,334	2,172	2,261
One to five years	6,098	5,595	5,476
More than five years	4,141	3,677	3,412
COMMITMENTS GIVEN FOR OPERATING LEASES AND CONCESSIONS	**12,573**	**11,444**	**11,149**
Less than one year	18	15	14
One to five years	48	35	17
More than five years	3	13	6
COMMITMENTS RECEIVED FOR SUBLEASES	**69**	**63**	**37**

In addition, the Group may enter into operating leases or concession contracts that have variable guaranteed amounts.

30.3. Collateral and other guarantees

As of December 31, 2018, these commitments broke down as follows:

(EUR millions)	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016
Securities and deposits	342	379	400
Other guarantees	160	726	582
GUARANTEES GIVEN	**502**	**1,105**	**982**
GUARANTEES RECEIVED	**70**	**40**	**34**

The maturity dates of these commitments are as follows:

(EUR millions)	Less than one year	One to five years	More than five years	Total
Securities and deposits	125	209	8	342
Other guarantees	56	91	13	160
GUARANTEES GIVEN	**181**	**300**	**21**	**502**
GUARANTEES RECEIVED	**20**	**44**	**6**	**70**

Since fiscal year 2011, in connection with the Group's overall financing and cash management, two affiliated companies have authorized Financière Agache to acquire a total of 6,300,000 LVMH shares and 2,500,000 Christian Dior shares, at a unit price that will correspond, upon the exercise of this right, to the market price of the shares in question upon their acquisition by Financière Agache.

30.4. Other commitments

The Group is not aware of any significant off-balance sheet commitments other than those described above.

NOTE 31 – EXCEPTIONAL EVENTS AND LITIGATION

As part of its day-to-day management, the Group may be party to various legal proceedings concerning trademark rights, the protection of intellectual property rights, the protection of selective retailing networks, licensing agreements, employee relations, tax audits, and any other matters inherent to its business. The Group believes that the provisions recorded in the balance sheet in respect of these risks, litigation proceedings and disputes that are in progress and any others of which it is aware at the year-end, are sufficient to avoid its consolidated financial position being materially impacted in the event of an unfavorable outcome.

In September 2017, Hurricanes Harvey, Irma and Maria battered the Caribbean and the southern United States, causing major damage to two of the Group's hotels in Saint-Barthélemy and affecting, to a lesser extent, the stores in the areas where the storms made landfall. As the losses incurred – in terms of both physical damage and the interruption of business – were covered in large part by the Group's insurance policies, the impact of these events on the consolidated financial statements for the fiscal year ended December 31, 2017 was not material.

At the end of October 2017, having discovered that a subcontractor had delivered product batches not meeting its quality standards, Benefit ordered a worldwide recall of these products and launched a communications campaign. As a significant portion of the costs related to this incident were covered by the Group's civil liability insurance policy, the remaining financial impact on the financial statements for the fiscal year ended December 31, 2018 was not material. This claim is expected to be settled in the first half of 2019. The Group and the insurance company jointly sued the subcontractor for damages.

There were no significant developments in fiscal year 2018 with regard to exceptional events or litigation.

To the best of the Company's knowledge, there are no pending or impending administrative, judicial or arbitration procedures that are likely to have, or have had over the twelve-month period under review, any significant impact on the Group's financial position or profitability.

NOTE 32 – RELATED-PARTY TRANSACTIONS

32.1. Relations of the Financière Agache group with the Arnault group

The Financière Agache group is consolidated in the accounts of Groupe Arnault SEDCS. Groupe Arnault SEDCS provides assistance to the Financière Agache group in the areas of development, financial engineering and corporate and real estate law. Groupe Arnault also leases office space to the Financière Agache group. Groupe Arnault leases office space from the Financière Agache group, and the Financière Agache group also provides Groupe Arnault with various forms of administrative assistance.

Routine transactions between the Financière Agache group and the Arnault group may be summarized as follows:

(EUR millions)	**Dec. 31, 2018**	**Dec. 31, 2017**	**Dec. 31, 2016**
• Services billed by the Arnault group to the Financière Agache group [(a)]	(8)	(12)	(11)
Amount payable outstanding as of December 31 [(b)]	-	(2)	(2)
• Interest billed by the Arnault group to the Financière Agache group [(a)]	(21)	(6)	(9)
Balance of loans granted to the Financière Agache group and accrued interest not yet due [(b)]	(524)	(675)	(362)
• Tax consolidation expense [(a)]	(29)	(4)	(15)
Balance of tax consolidation accounts [(b)]	(85)	9	6
• Amounts billed by the Financière Agache group to the Arnault group [(a)]	6	5	4
Amount receivable outstanding as of December 31 [(b)]	-	1	1
• Interest billed by the Financière Agache group to the Arnault group	17	13	13
Balance of loans granted by the Financière Agache group and accrued interest not yet due [(b)]	204	508	440

(a) Income/(Expense).
(b) Asset/(Liability).

32.2. Relations of the Financière Agache group with Diageo

Moët Hennessy SAS and Moët Hennessy International SAS (hereinafter referred to as "Moët Hennessy") hold the LVMH group's investments in the Wines and Spirits business group, with the exception of Château d'Yquem, Château Cheval Blanc, Domaine du Clos des Lambrays and certain champagne vineyards. Diageo holds a 34% stake in Moët Hennessy. When that holding was acquired in 1994, an agreement was entered into between Diageo and LVMH for the apportionment of shared holding company expenses between Moët Hennessy and the other holding companies of the LVMH group.

Under this agreement, Moët Hennessy assumed 15% of shared costs in 2018 (16% in 2017 and 17% in 2016), and accordingly re-invoiced the excess costs incurred to LVMH SE. After re-invoicing, the amount of shared costs assumed by Moët Hennessy came to 17 million euros for 2018 (19 million euros in 2017 and 21 million euros in 2016).

32.3. Relations with the Fondation Louis Vuitton

In October 2014, the Fondation Louis Vuitton opened a modern and contemporary art museum in Paris. The LVMH group finances the Fondation as part of its corporate philanthropy initiatives. Its net contributions to this project are included in "Property, plant and equipment" and are depreciated from the time the museum opened (October 2014) over the remaining duration of the public property use agreement awarded by the City of Paris. The Fondation Louis Vuitton also obtains external financing guaranteed by LVMH. These guarantees are part of LVMH's off-balance sheet commitments (see Note 30.3).

32.4. Executive bodies

The total compensation paid to the members of the Board of Directors in respect of their functions within the Group breaks down as follows:

(EUR millions)	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016
Gross compensation, employer social security contributions and benefits in kind	7	7	7
Post-employment benefits	4	4	3
Other long-term benefits	-	-	-
End-of-contract bonuses	-	-	-
Cost of stock option and similar plans	6	4	3
TOTAL	**17**	**15**	**13**

The commitment recognized as of December 31, 2018 for post-employment benefits net of related financial assets was 11 million euros (12 million euros as of December 31, 2017 and 11 million euros as of December 31, 2016).

NOTE 33 – SUBSEQUENT EVENTS

No significant subsequent events occurred between December 31, 2018 and April 26, 2019, the date at which the financial statements were approved for publication by the Board of Directors.

List of consolidated companies

Company	Registered office	Ownership interest
Financière Agache SA	**Paris, France**	**Parent company**
Christian Dior SE and its subsidiaries	Paris, France	95%
LVMH SE and its subsidiaries	Paris, France	41%
Semyrhamis SA	Paris, France	100%
Coromandel SAS	Paris, France	100%
Montaigne Services SNC	Paris, France	100%
Agache Développement SA	Paris, France	100%
Transept SAS	Paris, France	100%
Markas Holding BV	Naarden, Netherlands	100%
Westley International SA and its subsidiaries	Luxembourg	100%
Le Peigné SA [(a)] and its subsidiaries [(a)]	Brussels, Belgium	40%

(a) Joint venture or associate.

Companies not included in the scope of consolidation

Company	Registered office	Ownership interest
Sévrilux SNC	Paris, France	100%
JGPG SAS	Paris, France	100%
Sémyrh-Europe	Luxembourg	100%
CD Investissements	Paris, France	95%
FJG Patrimoine	Paris, France	95%
Société d'Exploitation Hôtelière de Saint-Tropez	Paris, France	41%
Société Nouvelle de Librairie et d'Édition	Paris, France	41%
Ictinos 1850	Paris, France	41%
Samos 1850	Paris, France	41%
BRN Invest NV	Baarn, Netherlands	41%
Toiltech	La Chapelle-devant-Bruyères, France	37%
Bulgari Austria Ltd	Vienna, Austria	41%
Sephora Macau Limited	Macao, China	41%
Les Beaux Monts	Couternon, France	37%
Sofpar 116	Paris, France	41%
Sofpar 125	Paris, France	41%
Sofpar 126	Paris, France	41%

Company	Registered office	Ownership interest
Sofpar 127	Paris, France	41%
Sofpar 128	Paris, France	41%
Sofpar 129	Paris, France	41%
Sofpar 130	Paris, France	41%
Sofpar 131	Paris, France	41%
Sofpar 132	Paris, France	41%
Sofpar 133	Paris, France	41%
Sofpar 134	Paris, France	41%
Sofpar 135	Paris, France	41%
Sofpar 136	Paris, France	41%
Sofpar 137	Paris, France	41%
Sofpar 138	Paris, France	41%
Sofpar 139	Paris, France	41%
Sofpar 140	Paris, France	41%
Sofpar 141	Paris, France	41%
Sofpar 142	Paris, France	41%
Moët Hennessy Management	Paris, France	41%
Prolepsis	Brussels, Belgium	41%
Prolepsis Investment Ltd	London, United Kingdom	41%
Hennessy Management	Paris, France	27%
MHCS Management	Paris, France	27%
Innovación en Marcas de Prestigio SA	Mexico City, Mexico	27%
Moët Hennessy Nigeria	Lagos, Nigeria	27%
MS 33 Expansion	Paris, France	41%
Shinsegae International Co. Ltd LLC	Seoul, South Korea	21%
Crystal Pumpkin	Luxembourg	41%
Rimowa Austria GmbH	Innsbruck, Austria	33%
Rimowa Schweiz AG	Zurich, Switzerland	33%
Loewe Nederland BV	Amsterdam, Netherlands	41%
Groupement Forestier des Bois de la Celle	Cognac, France	27%
Augesco	Paris, France	21%
HUGO	Neuilly-sur-Seine, France	41%
Moët Hennessy Portugal Unipessoal Lda.	Lisbon, Portugal	27%

These companies are not included in the scope of consolidation due to their inactivity or low level of activity; the individual or collective consolidation of these companies would not have a significant impact on the Group's main aggregates.

7. Statutory Auditors' report on the consolidated financial statements

To the Shareholders' Meeting of Financière Agache SA,

Opinion

In compliance with the engagement entrusted to us by your Shareholders' Meeting, we have audited the accompanying consolidated financial statements of Financière Agache SA for the fiscal year ended December 31, 2018.

In our opinion, the consolidated financial statements give a true and fair view of the Group's assets, liabilities and financial position as of December 31, 2018 and of the results of its operations for the fiscal year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The audit opinion expressed above is consistent with our report to the Performance Audit Committee.

Basis for our opinion

Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the section of our report entitled "Statutory Auditors' responsibilities for the audit of the consolidated financial statements".

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2018 to the date of our report. We did not provide any prohibited non-audit services referred to in Article 5 (1) of Regulation (EU) No. 537/2014 or in the French Code of Ethics (Code de Déontologie) for Statutory Auditors.

Emphasis of matter

Without calling into question the opinion expressed above, we draw attention to the following matters described in Note 1.2 to the consolidated financial statements relating to:

- the impact of the first application in 2018 of IFRS 9 on financial instruments and IFRS 15 on revenue recognition;
- the expected impact of the application of IFRS 16 on leases, which the Group will apply as of January 1, 2019.

Justification of assessments – Key audit matters

In accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code *(Code de commerce)* relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement which, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on specific items of the consolidated financial statements.

Valuation of fixed assets, in particular intangible assets

Risk identified

As of December 31, 2018, the value of the Group's fixed assets came to 43 billion euros out of total assets of 81 billion euros. These fixed assets mainly comprise brands, trade names and goodwill recognized on external growth transactions, as well as, to a lesser extent, property, plant and equipment, mainly composed of land, vineyard land, buildings and store fixtures and fittings. We considered the valuation of these fixed assets to be a key audit matter, due to their significance in the Group's financial statements and because the determination of their recoverable amount, which is usually based on discounted forecast cash flows, requires the use of assumptions, estimates and other forms of judgment, as specified in Note 1.5 to the consolidated financial statements.

Our response

The Group tests these assets for impairment, as described in Notes 1.14 and 5 to the consolidated financial statements. In this context, we assessed the methods used to perform these impairment tests and focused our work primarily on Maisons where the carrying amount of intangible assets represents a high multiple of profit from recurring operations. In particular, among the most significant intangible assets recognized by the Group and disclosed in Note 5 to the consolidated financial statements, we paid special attention to recent acquisitions. We assessed the reasonableness of the main estimates used, in particular forecast cash flows, long-term growth rates and the discount rates applied. We also analyzed the consistency of forecasts with past performance, market outlook and the Group's historic performance and conducted impairment test sensitivity analyses. In addition, where the recoverable amount is estimated by comparison with recent similar transactions, we corroborated the analyses provided with available market data. All of these analyses were carried out in conjunction with our valuation experts. Lastly, we assessed the appropriateness of the information disclosed in the notes to the consolidated financial statements.

Valuation of inventories and work in progress

Risk identified

The success of the Group's products, particularly in the Fashion and Leather Goods and the Watches and Jewelry business groups, depends among other factors on its ability to identify new trends and changes in behaviors and tastes, enabling it to offer products that meet consumers' expectations. The Group determines the amounts of provisions for inventory impairment on the basis of sales prospects in its various markets or due to product obsolescence, as specified in Note 1.16 to the consolidated financial statements. We considered this to constitute a key audit matter since the aforementioned projections and any resulting provisions are intrinsically dependent on assumptions, estimates and other forms of judgment made by the Group. Furthermore, inventories are present in a large number of subsidiaries, and determining these provisions depends primarily on estimated returns and the monitoring of internal margins, which are eliminated in the consolidated financial statements unless and until inventories are sold to non-Group clients.

Our response

As part of our procedures, we analyzed sales prospects as estimated by the Group in light of past performance and the most recent budgets in order to corroborate the resulting impairment amounts. Where applicable, we assessed the assumptions made by the Group for the recognition of specific provisions. We also assessed the consistency of internal margins eliminated in the consolidated financial statements, by assessing in particular the margins generated with the various distribution subsidiaries and checking that the elimination percentage applied is consistent.

Provisions for contingencies and losses

Risk identified

The Group's activities are carried out worldwide, within what is often an imprecise regulatory framework that is different for each country, changes over time and applies to areas ranging from product composition and packaging to the tax computation and relations with the Group's partners (distributors, suppliers, shareholders in subsidiaries, etc.). Within this context, the Group's activities may give rise to risks, disputes or litigation, and the Group's entities in France and abroad may be subject to tax inspections and, in certain cases, to rectification claims from local administrations. In particular, as stated in Note 19 to the consolidated financial statements, provisions are set aside to cover these rectification claims, as well as any uncertain tax positions that have been identified but not yet officially notified; the amount of such provisions is established in accordance with IAS 37 Provisions and IAS 12 Income Taxes. We considered this to constitute a key audit matter due to the significance of the amounts at stake and the level of judgment required to monitor ongoing regulatory changes, in particular with regard to tax rules in France and the United States, and to evaluate these provisions in the context of a constantly evolving international regulatory environment.

Our response

Within the context of our audit of the consolidated financial statements, our work consisted in particular in: Assessing the procedures implemented by the Group in order to identify and evaluate all risks; Obtaining an understanding of the risk analysis performed by the Group and the corresponding documentation and, where applicable, reviewing written confirmations received from external advisors; Assessing – in conjunction with our experts, tax specialists in particular – the main risks identified and assessing the reasonableness of the assumptions made by Group management to estimate the amount of the provisions; Carrying out a critical review of analyses relating to the use of provisions for contingencies and losses prepared by the Group; Assessing – in conjunction with our tax specialists – the evaluations drawn up by the Group's tax department relating to the consequences of tax reforms in France and the United States; Assessing the appropriateness of information relating to these risks disclosed in the notes to the consolidated financial statements.

Specific verifications

In accordance with professional standards applicable in France, we have also performed the specific verifications required by laws and regulations of the information provided in the Group's Management Report of the Board of Directors.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

We attest that the consolidated non-financial statement provided for by Article L. 225-102-1 of the French Commercial Code is included in the Group's Management Report, with the proviso that, in accordance with the provisions of Article L. 823-10 of said code, we have verified neither the fair presentation nor the consistency with the consolidated financial statements of the information contained in this statement, which must be subject to a report by an independent third party.

Report on other legal and regulatory requirements

Appointment of the Statutory Auditors

We were appointed as Statutory Auditors of Financière Agache SA by your Shareholders' Meeting held on June 27, 1997 (for MAZARS) and June 24, 2009 (for ERNST & YOUNG et Autres).

As of December 31, 2018, MAZARS was in the 22nd consecutive year of its engagement and ERNST & YOUNG et Autres was in its 10th year. Previously, Ernst & Young Audit had served as Statutory Auditor beginning in 1992.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, for disclosing, as applicable, any matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Performance Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems and where applicable, internal audit, regarding accounting and financial reporting procedures.

The consolidated financial statements have been approved by the Board of Directors.

Statutory Auditors' responsibilities for the audit of the consolidated financial statements

Objectives and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance as to whether the consolidated financial statements taken as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code, our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditor exercises professional judgment throughout the audit and furthermore:

- identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for its opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or overriding internal control;
- obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control;
- assesses the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the consolidated financial statements;
- assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of its audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, to issue a qualified or adverse audit opinion;
- assesses the overall presentation of the consolidated financial statements and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtains sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The Statutory Auditor is responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these financial statements.

Report to the Performance Audit Committee

We submit a report to the Performance Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report any significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Performance Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements for the fiscal year and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Performance Audit Committee with the declaration provided for in Article 6 of Regulation (EU) No. 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set out in particular by Articles L. 822-10 to L. 822-14 of the French Commercial Code and in the French Code of Ethics for Statutory Auditors. Where appropriate, we discuss with the Performance Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Courbevoie and Paris-La Défense, April 30, 2019

The Statutory Auditors,

French original signed by

MAZARS	ERNST & YOUNG et Autres
Simon Beillevaire	Jeanne Boillet

This is a free translation into English of a report issued in French. It is provided solely for the convenience of English-speaking users. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

Parent company financial statements: Financière Agache

1. Balance sheet

Assets

(EUR thousands)	Notes	12/31/2018 Gross	12/31/2018 Depreciation, amortization and provisions	12/31/2018 Net	12/31/2017 Net
Other intangible assets		-	-	-	-
Intangible assets	2.1/2.2				
Land		468	-	468	534
Buildings		418	335	83	118
Other property, plant and equipment		-	-	-	-
Property, plant and equipment	2.1/2.2	**886**	**335**	**551**	**652**
Equity investments	2.2/2.5	4,708,350	91,879	4,616,471	4,617,610
Receivables from equity investments	2.3/2.5	156,127	-	156,127	457,601
Long-term investments		17,724	-	17,724	8
Loans	2.3	1	-	1	1
Other non-current financial assets	2.3	448	-	448	448
Non-current financial assets	2.1/2.2	**4,882,650**	**91,879**	**4,790,771**	**5,075,668**
NON-CURRENT ASSETS	2.1/2.2	**4,883,536**	**92,214**	**4,791,322**	**5,076,320**
Trade accounts receivable	2.3/2.5	5	-	5	21
Financial accounts receivable	2.3/2.5		-		233
Other receivables	2.3/2.5/2.7	11	-	11	3,586
Short-term investments	2.5/2.7	49,537	986	48,551	28,960
Cash and cash equivalents		50,665	-	50,665	14,712
CURRENT ASSETS		**100,218**	**986**	**99,232**	**47,512**
Prepaid expenses	2.3	484	-	484	300
Bond redemption premiums		-	-	-	-
TOTAL ASSETS		**4,984,238**	**93,200**	**4,891,038**	**5,124,132**

Liabilities and equity

(EUR thousands)	*Notes*	12/31/2018	12/31/2017
Share capital	*2.4*	50,774	50,774
Share premium account		441,946	441,946
Legal reserve		5,077	5,077
Regulated reserves		55,695	55,695
Other reserves		540,432	540,432
Retained earnings		2,816,510	2,951,944
Net profit for the fiscal year		**150,129**	**181,540**
Regulated provisions		-	-
Interim dividends		(222,135)	(317,335)
EQUITY	*2.4*	**3,838,428**	**3,910,073**
PROVISIONS FOR CONTINGENCIES AND LOSSES	*2.5*	**8,397**	**28,609**
Bonds		120,606	120,605
Bank loans and borrowings		103,728	206,317
Miscellaneous loans and borrowings		812,838	854,017
Borrowings	*2.6*	**1,037,172**	**1,180,939**
Trade accounts payable		205	257
Tax and social security liabilities		1,244	1,761
Operating liabilities	*2.6*	**1,449**	**2,018**
Other liabilities	*2.6*	4,409	1,112
LIABILITIES	*2.6*	**1,043,030**	**1,184,069**
Deferred income	*2.6/2.7*	1,183	1,381
TOTAL LIABILITIES AND EQUITY		**4,891,038**	**5,124,132**

2. Income statement

(EUR thousands)	**12/31/2018**	**12/31/2017**
Other services	-	-
Net revenue	**-**	**-**
Reversals of provisions, depreciation and amortization	71	-
Expense transfers	-	-
Other income	95	136
Operating income	**166**	**136**
Other purchases and external expenses	720	873
Taxes, duties and similar levies	15	20
Wages and salaries	-	-
Social security expenses	16	16
Depreciation and amortization	15	19
Current asset provision allocations	-	-
Other expenses	168	82
Operating expenses	**934**	**1,010**
OPERATING PROFIT/(LOSS)	**(768)**	**(874)**

(EUR thousands)	*Notes*	12/31/2018	12/31/2017
Income from equity investments		129,629	81,625
Income from other securities and non-current investments		-	-
Other interest and similar income		25,234	28,521
Reversals of provisions and expenses transferred	*2.5*	20,986	117,687
Net foreign exchange gains		-	-
Net gains on sales of short-term investments		-	71
Financial income		**175,849**	**227,904**
Depreciation, amortization and provisions	*2.5*	1,792	2,114
Interest and similar expenses		14,701	16,885
Net foreign exchange losses		261	22,998
Net losses on sales of short-term investments		-	580
Financial expenses		**16,754**	**42,577**
NET FINANCIAL INCOME/(EXPENSE)	*2.8*	**159,095**	**185,327**
RECURRING PROFIT		**158,327**	**184,453**
Exceptional income from management transactions		4	-
Exceptional income from capital transactions		308	1,213
Reversals of provisions and expenses transferred	*2.5*	-	-
Exceptional income		**312**	**1,213**
Exceptional expenses on management transactions		-	-
Exceptional expenses on capital transactions		86	147
Provision allocations		-	-
Exceptional expenses		**86**	**147**
NET EXCEPTIONAL INCOME/(EXPENSE)	*2.9*	**226**	**1,066**
Income taxes	*2.10*	**8,424**	**3,979**
NET PROFIT		**150,129**	**181,540**

3. Notes to the parent company financial statements

Amounts are expressed in thousands of euros unless otherwise indicated.

The total amount of dividends received from subsidiaries and equity investments was 129.6 million euros in 2018, compared with 81.6 million euros in 2017.

Net financial income totaled 159.1 million euros in 2018, compared with 185.3 million euros in 2017.

Net profit was 150.1 million euros, compared with 181.5 million euros in 2017.

NOTE 1 – ACCOUNTING POLICIES AND METHODS

The parent company financial statements have been prepared in accordance with Regulation 2014-03 of June 5, 2014 and Regulation 2015-05 of July 2, 2015, both issued by the Autorité des Normes Comptables (France's accounting standards authority).

General accounting conventions have been applied observing the principle of prudence in conformity with the basic assumptions of going concern, consistency of accounting methods, and accrual basis, and in conformity with the general rules for the preparation and presentation of parent company financial statements.

The accounting items recorded have been evaluated using the historical cost method, with the exception of fixed assets subject to revaluation in accordance with legal provisions.

1.1. Property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over the following estimated useful lives:

• buildings:	20 to 50 years;
• general installations, fixtures and fittings:	4 to 10 years;
• transport equipment:	4 years;
• office furniture and equipment:	3 to 10 years.

1.2. Non-current financial assets

Equity investments and other long-term investments are stated at acquisition cost (excluding incidental costs) or at contribution value. When value in use as of the year-end is lower than the carrying amount, a provision is recorded in the amount of the difference.

For investments in listed companies, the value in use is generally estimated on the basis of market capitalization, the share of the company's net asset value and/or discounted forecast cash flows.

The value in use of unlisted investments is generally estimated on the basis of the share of the net asset value of the companies concerned, market comparables and/or discounted forecast cash flows.

Loans, deposits and other long-term receivables are measured at their face value. Where applicable, these items are reviewed for impairment and provisions are recognized to write them down to their net realizable value at the fiscal year-end.

1.3. Receivables and payables

Receivables and payables are recorded at their face value. A provision for impairment is recorded if their net realizable value, based on the probability of their collection, is lower than their carrying amount.

1.4. Short-term investments

Short-term investments are recorded at acquisition cost. A provision for impairment is recorded within "Net financial income/(expense)" if their acquisition cost is higher than their market value determined as follows:

- listed investments: Average share price during the last month of the fiscal year, translated, where applicable, at year-end exchange rates;
- other investments: Estimated realizable value or liquidation value, translated, where applicable, at year-end exchange rates.

This calculation is performed on a line-by-line basis, without offsetting any unrecognized capital gains and losses.

1.5. Provisions for contingencies and losses

The Company establishes a provision for definite and likely contingencies and losses at the end of each fiscal year, observing the principle of prudence.

1.6. Foreign currency transactions

During the period, foreign currency transactions are translated into euros using the exchange rates prevailing on the transaction dates.

Payables, receivables, cash and cash equivalents, and short-term investments in foreign currencies are revalued on the balance sheet at fiscal year-end exchange rates.

Gains or losses on transactions regarded as elements of the same overall foreign exchange position by currency (realized or resulting from the revaluation of positions at the fiscal year-end) are recorded in the income statement as a single net amount.

The difference resulting from the revaluation of payables and receivables in foreign currencies at the fiscal year-end that cannot be regarded as elements of the same overall foreign exchange position is recorded under "Translation adjustment". Provisions are recorded for unrealized foreign exchange losses unless they are hedged.

1.7. Net financial income/(expense)

Due to its type of activity, the Company records sales of investments according to the following principles:

- gains or losses on partial sales of equity investments are recognized within "Net financial income/(expense)". They are calculated according to the weighted average cost method;
- gains or losses on sales of short-term investments are calculated using the FIFO method.

1.8. Gains and losses on options and forward contracts

a) On hedges
Gains and losses are recorded in the income statement and matched against the income and expenses arising from the hedged item.

b) On other transactions
A provision for contingencies is recorded if the market value of the instrument results in the calculation of an unrealized loss for the Company compared to the initial value of the instrument. Unrealized gains are not recognized.

1.9. Equity

In accordance with the recommendations of the Compagnie nationale des Commissaires aux comptes (France's national institute of Statutory Auditors), interim dividends are recorded as a deduction from equity.

NOTE 2 – ADDITIONAL INFORMATION RELATING TO THE BALANCE SHEET AND INCOME STATEMENT

2.1. Fixed assets

(EUR thousands)	Gross value as of 01/01/2018	Increases: Acquisitions, creations, transfers	Decreases: Disposals, transfers	Gross value as of 12/31/2018
Intangible assets	**-**	**-**	**-**	**-**
Land	534	-	66	468
Buildings, fixtures and fittings	510	-	92	418
General installations, fixtures and fittings	-	-	-	-
Transport equipment	-	-	-	-
Office furniture and equipment	-	-	-	-
Property, plant and equipment	**1,044**	**-**	**158**	**886**
Equity investments	4,708,358	-	8	4,708,350
Receivables from equity investments	457,601	892,283	1,193,757	156,127
Long-term investments	8	17,716	-	17,724
Loans	1	-	-	1
Other non-current financial assets	448	-	-	448
Non-current financial assets	**5,166,416**	**909,999**	**1,193,765**	**4,882,650**
TOTAL	**5,167,460**	**909,999**	**1,193,923**	**4,883,536**

The 301.5 million euro net decrease in "Receivables from equity investments" corresponds to the decrease in the amount extended under the medium-term loan agreements set up by Financière Agache for affiliated companies. The increase in "Long-term investments" resulted from the acquisition of ownership interests in several companies.

2.2. Depreciation, amortization and impairment of fixed assets

	Position and changes in the fiscal year			
(EUR thousands)	Depreciation, amortization and provisions as of 01/01/2018	Increases, charges	Decreases, reversals	Depreciation amortization and provisions as of 12/31/2018
Intangible assets	**-**	**-**	**-**	**-**
Buildings, fixtures and fittings	392	15	72	335
General installations, fixtures and fittings	-	-	-	-
Office furniture and equipment	-	-	-	-
Property, plant and equipment	**392**	**15**	**72**	**335**
Equity investments	90,748	1,160	29	91,879
Receivables from equity investments	-	-	-	
Long-term investments and loans	-	-	-	-
Non-current financial assets	**90,748**	**1,160**	**29**	**91,879**
TOTAL	**91,140**	**1,175**	**101**	**92,214**

Charges to and reversals of provisions for non-current financial assets reflect the change in the level of net assets of the subsidiaries concerned.

2.3. Loans and receivables by maturity

(EUR thousands)	Gross amount	Up to 1 year	More than 1 year
Receivables from equity investments	156,127	156,127	-
Loans and other non-current financial assets	449	-	449
Trade accounts receivable	5	5	-
Financial accounts receivable	-	-	-
Other receivables	11	11	-
Prepaid expenses	484	484	-
TOTAL	**157,076**	**156,627**	**449**

Receivables from equity investments

Receivables from equity investments comprise advances granted to Group companies under bilateral medium-term loan agreements.

Accrued interest on receivables from equity investments amounted to 0.8 million euros.

Other receivables

Other receivables mainly include receivables related to forward sales.

Prepaid expenses and deferred income

As of December 31, 2018, prepaid expenses mainly related to commissions for credit line commitments.

2.4. Equity

2.4.1. Share capital

The share capital comprises 3,173,352 shares, each with a par value of 16 euros, of which 3,169,549 shares carry double voting rights.

2.4.2. Change in equity

(EUR thousands)	
Equity as of 12/31/2017 (prior to appropriation of net profit)	**3,910,073**
Net profit for the fiscal year ended December 31, 2018	150,129
Dividends paid for 2017	-
2018 interim dividends	(222,135)
Change in regulated reserves	-
Impact of treasury shares	361
Equity as of 12/31/2018 (prior to appropriation of net profit)	**3,838,428**

The appropriation of net profit for fiscal year 2017 was approved at the Ordinary Shareholders' Meeting of May 30, 2018.

2.5. Impairment and provisions

(EUR thousands)	**Amount as of 01/01/2018**	**Increases**	**Amounts released**	**Amount as of 12/31/2018**
Impairment				
Equity investments	90,748	1,160	29	91,879
Receivables from equity investments	-	-	-	-
Trade accounts receivable	26	-	26	-
Financial and other receivables	45	-	45	-
Short-term investments	942	44	-	986
Subtotal	**91,761**	**1,204**	**100**	**92,865**
Provisions for contingencies and losses				
Litigation and miscellaneous risks	28,609	588	20,800	8,397
Subtotal	**28,609**	**588**	**20,800**	**8,397**
TOTAL	**120,370**	**1,792**	**20,900**	**101,262**
Amortization of the bond redemption premium	-	-	157	-
Of which: Operating	-	-	71	-
Financial	-	1,792	20,829	-
Exceptional	-	-	-	-

Changes in provisions for "Equity investments" (1.1 million euros) and "Litigation and miscellaneous risks" (including a net reversal of 20.2 million euros) mainly reflect the change in the level of net assets of the subsidiaries concerned.

2.6. Payables by maturity

Payables *(EUR thousands)*	Gross amount	Up to 1 year	1 to 5 years	More than 5 years
Bonds	120,606	606	120,000	-
Bank loans and borrowings	103,728	147	103,581	-
Miscellaneous loans and borrowings	812,838	812,838	-	-
Trade accounts payable	205	205	-	-
Tax and social security liabilities	1,244	1,244	-	-
Other liabilities	4,409	4,409	-	-
Deferred income	1,183	620	563	-
TOTAL	**1,044,213**	**820,069**	**224,144**	**-**

The bond issued with a face value of 120 million euros falls due on August 1, 2022. Redeemable at par, it pays an annual coupon of 1.20%.

Bank loans and borrowings mainly comprise long-term borrowings in the amount of 103.6 million euros and short-term borrowings in the amount of 0.1 million euros.

Miscellaneous loans and borrowings include short-term negotiable debt securities outstanding in the amount of 813 million euros.

As is normal practice for credit facilities, Financière Agache has signed commitments to maintain a specific ownership interest and voting rights for some of its subsidiaries.

2.7. Accrued income and expenses by receivable/payable line

(EUR thousands)	Accrued expenses and deferred income	Accrued income and prepaid expenses
Current assets		
Short-term investments	-	-
Other receivables	-	11
Prepaid expenses	-	484
Payables		
Borrowings	748	-
Trade accounts payable	203	-
Tax and social security liabilities	1,244	-
Other liabilities	114	-
Deferred income	1,183	-

2.8. Financial income and expenses

Net financial income was 159.1 million euros. This item mainly includes:

- dividend income for 137.6 million euros;
- net financial income for 4.1 million euros;
- net reversals of provisions for 19.2 million euros;
- foreign exchange losses for 1.9 million euros.

2.9. Exceptional income and expenses

Exceptional income *(EUR thousands)*	**2018**	**2017**
Miscellaneous revenue from management transactions	4	-
Income from capital transactions	308	1,213
Reversals of provisions and expenses transferred	-	-
EXCEPTIONAL INCOME	**312**	**1,213**

Exceptional expenses *(EUR thousands)*	**2018**	**2017**
Exceptional expenses on management transactions	-	-
Expenses on capital transactions	86	147
Provision allocations	-	-
EXCEPTIONAL EXPENSES	**86**	**147**
NET EXCEPTIONAL INCOME/(EXPENSE)	**226**	**1,066**

2.10. Income taxes

	2018			**2017**		
(EUR thousands)	**Before tax**	**Tax**	**After tax**	**Before tax**	**Tax**	**After tax**
Recurring profit	158,327	-	158,327	184,453	-	184,453
Exceptional income/(expense)	226	(8,424)	(8,198)	1,066	(3,979)	(2,913)
TOTAL	**158,553**	**(8,424)**	**150,129**	**185,519**	**(3,979)**	**181,540**

2.11. Tax position

Since 2004, Financière Agache has been a member of the tax consolidation group of which Groupe Arnault is the parent company.

Financière Agache calculates and recognizes its tax expense as if it were individually subject to tax, and remits this amount to the parent company.

NOTE 3 – OTHER INFORMATION

3.1. Financial commitments

Commitments relating to forward financial instruments

Foreign exchange hedging

As part of its financing and foreign exchange hedging policy, Financière Agache uses forward sales of foreign currencies against the euro. As of December 31, 2018, the nominal amount of these financial instruments came to 16.3 million dollars.

Commitments given

With respect to one of its subsidiaries, Financière Agache confirmed the Group's policy whose aim is to ensure that its controlled subsidiaries have access in all circumstances to the resources required to meet their financial obligations.

Commitments received

Since fiscal year 2011, as part of the Group's overall financing and cash management, two companies in the Arnault Family Group have authorized Financière Agache to acquire a total of 6,300,000 LVMH shares and 2,500,000 Christian Dior shares, at a unit price that will correspond, upon the exercise of this right, to the market price of the shares in question upon their acquisition by Financière Agache.

Reciprocal commitments

Financière Agache and a third party have made reciprocal commitments to buy and sell shares, for a total of 3.3 million euros, ending October 30, 2019.

3.2. Compensation of management bodies

A gross amount of 82.3 thousand euros in directors' fees for fiscal year 2018 was paid in January 2019.

3.3. Related-party transactions

No new related-party agreements, within the meaning of Article R. 123-198 of the French Commercial Code, were entered into during the fiscal year in significant amounts and under conditions other than normal market conditions.

3.4. Identity of the company consolidating the accounts of Financière Agache

Registered office

Groupe Arnault: 41 Avenue Montaigne – 75008 Paris (France) – RCS 314 685 454.

3.5. Additional information relating to equity investments and short-term investments

List of subsidiaries and investments

(EUR thousands)	Gross carrying amount	Net carrying amount	Loans and advances granted by the Company and not yet repaid	Deposits and sureties granted by the Company during the fiscal year	Dividends received by the Company during the fiscal year
A. Shares whose gross value exceeds 1% of the share capital					
1. Subsidiaries (at least 50% of the share capital held by the Company)					
Agache Développement	17,280	-	-	-	-
Coromandel	52,400	52,400	-	-	-
Montaigne Services	4,487	-	-	-	-
Semyrhamis	3,666,348	3,666,348	-	-	-
Markas Holding	18,456	1,541	-	-	-
Westley International	52,102	-	-	-	-
2. Equity investments (between 10% and 50% of the share capital held by the Company)					
LC Investissements	84,138	84,138	-	-	-
Le Peigné	65,420	65,420	-	-	-
3. Other					
Christian Dior [(a)]	462,260	462,260	-	-	94,277
LVMH Moët Hennessy - Louis Vuitton [(a)]	282,311	282,311	-	-	43,318
B. Other (shares whose gross value does not exceed 1% of the share capital)					
French subsidiaries	3,148	2,053	-	-	-

(a) Excluding shares recognized as short-term investments.

Information concerning non-current investments of the "TIAP" portfolio

Not significant.

Information on short-term investments

(EUR thousands)	Carrying amount as of 12/31/2018
Shares	28,433
Term deposits	19,565
Hedge funds and private equity funds	553
SHORT-TERM INVESTMENTS	**48,551**

4. Company results over the last five fiscal years

(EUR thousands)	2014	2015	2016	2017	2018
1. Share capital					
Share capital	50,774	50,774	50,774	50,774	50,774
Number of ordinary shares outstanding	3,173,352	3,173,352	3,173,352	3,173,352	3,173,352
Maximum number of future shares to be created through exercise of share subscription options	-	-	-	-	-
2. Operations and profit for the fiscal year					
Revenue before taxes	-	-	-	-	-
Profit before taxes, depreciation, amortization and movements in provisions	568,739	280,944	100,911	69,965	139,303
Income taxes	22,475	9,024	5,998	3,979	8,424
Profit after taxes, depreciation, amortization and movements in provisions	496,084	248,934	113,465	181,540	150,129
Profit distributed as dividends [(a)]	-	550,577	82,507	317,335	222,135
3. Earnings per share *(EUR)*					
Earnings per share before taxes, depreciation, amortization and movements in provisions	179.22	88.53	31.80	22.05	43.90
Earnings per share after taxes, depreciation, amortization and movements in provisions	156.33	78.45	35.76	57.21	47.31
Gross dividend distributed per share [(b)]	-	173.50	26.00	100.00	70.00
4. Employees					
Average number of employees	-	-	-	-	-
Total payroll	9	-	-	-	-
Amounts paid in respect of employee benefits for the fiscal year	21	16	17	16	16

(a) Amount of the distribution resulting from the resolution of the Shareholders' Meeting, before the impact of Financière Agache treasury shares held as of the distribution date. For fiscal year 2018, amount proposed at the Shareholders' Meeting of May 22, 2019.
(b) Excluding the impact of tax regulations applicable to recipients.

5. Statutory Auditors' reports

STATUTORY AUDITORS' REPORT ON THE PARENT COMPANY FINANCIAL STATEMENTS

To the Shareholders' Meeting of Financière Agache SA,

Opinion

In compliance with the engagement entrusted to us by your Shareholders' Meeting, we have audited the accompanying parent company financial statements of Financière Agache SA for the fiscal year ended December 31, 2018.

In our opinion, the parent company financial statements give a true and fair view of the Company's assets, liabilities and financial position as of December 31, 2018 and of the results of its operations for the fiscal year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Performance Audit Committee.

Basis for our opinion

Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the "Statutory Auditors' responsibilities for the audit of the parent company financial statements" section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2018 to the date of our report. We did not provide any prohibited non-audit services referred to in Article 5 (1) of Regulation (EU) No. 537/2014 or in the French Code of Ethics (Code de Déontologie) for Statutory Auditors.

Justification of assessments – Key audit matters

In accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code (Code de Commerce) relating to the justification of our assessments, we are required to inform you of the key audit matters relating to risks of material misstatement which, in our professional judgment, were of most significance in our audit of the parent company financial statements for the fiscal year, as well as how we addressed those risks.

We determined that there were no key audit matters to disclose in our report.

Specific verifications

We also performed, in accordance with professional standards applicable in France, the specific verifications required by laws and regulations.

Information provided in the Management Report and in the other documents given to shareholders related to the financial position and the parent company financial statements

We have no matters to report as to the fair presentation and the consistency with the parent company financial statements of the information provided in the Management Report of the Board of Directors and in the other documents on the financial position and the parent company financial statements given to shareholders.

We attest to the fair presentation and the consistency with the parent company financial statements of the information on payment terms set out in Article D. 441-4 of the French Commercial Code.

Report on corporate governance

We attest that the Board of Directors' report on corporate governance sets out the information required by Articles L. 225-37-3 and L. 225-37-4 of the French Commercial Code.

Concerning the information provided in accordance with the requirements of Article L. 225-37-3 of the French Commercial Code relating to the compensation and benefits received by company officers and any other commitments made in their favor, we have verified its consistency with the financial statements or the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from controlling and controlled companies. Based on this work, we attest to the accuracy and fair presentation of this information.

With respect to the information relating to items that your Company considered likely to have an impact in the event of a public tender or exchange offer, provided pursuant to Article L. 225-37-5 of the French Commercial Code, we verified their compliance with the source documents communicated to us. Based on our work, we have no matters to report regarding this information.

Other information

In accordance with French law, we have verified that the required information concerning the purchase of investments and controlling interests and the identity of the shareholders and holders of the voting rights has been properly disclosed in the Management Report.

Report on other legal and regulatory requirements

Appointment of the Statutory Auditors

We were appointed as Statutory Auditors of Financière Agache SA by your Shareholders' Meeting held on June 27, 1997 (for MAZARS) and June 24, 2009 (for ERNST & YOUNG et Autres).

As of December 31, 2018, MAZARS was in the 21st consecutive year of its engagement and ERNST & YOUNG et Autres was in its 10th year. Previously, Ernst & Young Audit had served as Statutory Auditor beginning in 1992.

Responsibilities of management and those charged with governance for the parent company financial statements

Management is responsible for the preparation and fair presentation of the parent company financial statements in accordance with French accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company financial statements, management is responsible for assessing the Company's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Performance Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems and where applicable, internal audit, regarding accounting and financial reporting procedures.

The parent company financial statements have been approved by the Board of Directors.

Statutory Auditors' responsibilities for the audit of the parent company financial statements

Objectives and audit approach

Our role is to issue a report on the parent company financial statements. Our objective is to obtain reasonable assurance as to whether the parent company financial statements taken as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code, our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditor exercises professional judgment throughout the audit and furthermore:

- identifies and assesses the risks of material misstatement of the parent company financial statements, whether due to fraud or error; designs and performs audit procedures responsive to those risks; and obtains audit evidence considered to be sufficient and appropriate to provide a basis for its opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or overriding internal control;
- obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control;
- assesses the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the parent company financial statements;
- assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of its audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the parent company financial statements or, if such disclosures are not provided or inadequate, to issue a qualified or adverse audit opinion;
- assesses the overall presentation of the parent company financial statements and whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

Report to the Performance Audit Committee

We submit a report to the Performance Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report any significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Performance Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the parent company financial statements for the fiscal year and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Performance Audit Committee with the declaration provided for in Article 6 of Regulation (EU) No. 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set out in particular by Articles L. 822-10 to L. 822-14 of the French Commercial Code and in the French Code of Ethics for Statutory Auditors. We discuss any risks that may reasonably be thought to bear on our independence, and the related safeguards, with the Performance Audit Committee.

Courbevoie and Paris-La Défense, April 30, 2019

The Statutory Auditors,

French original signed by

MAZARS	ERNST & YOUNG et Autres
Simon Beillevaire	Jeanne Boillet

This is a free translation into English of a report issued in French. It is provided solely for the convenience of English-speaking users. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

STATUTORY AUDITORS' SPECIAL REPORT ON RELATED-PARTY AGREEMENTS

To the Shareholders' Meeting of Financière Agache SA,

In our capacity as Statutory Auditors of your Company, we hereby present to you our report on related-party agreements.

We are required to inform you, on the basis of the information provided to us, of the terms and conditions of those agreements indicated to us, or that we may have identified in the performance of our engagement, as well as the reasons justifying why they benefit the Company. We are not required to give our opinion as to whether they are beneficial or appropriate or to ascertain the existence of other agreements. It is your responsibility, in accordance with Article R. 225-31 of the French Commercial Code (Code de Commerce), to assess the relevance of these agreements prior to their approval.

In accordance with Article R. 225-31 of the French Commercial Code, we are also required to inform you of the continuation of the implementation, during the fiscal year under review, of any agreements previously approved at a Shareholders' Meeting.

We performed those procedures which we deemed necessary in compliance with professional guidance issued by the Compagnie nationale des Commissaires aux comptes (France's national institute of Statutory Auditors) relating to this type of engagement. These procedures consisted in verifying the consistency of the information provided to us with the relevant source documents.

Agreements submitted for approval at the Shareholders' Meeting

We hereby inform you that we were not informed of any agreements authorized and entered into during the fiscal year under review to be submitted for approval at the Shareholders' Meeting, pursuant to the provisions of Article L. 225-38 of the French Commercial Code.

Agreements previously approved at a Shareholders' Meeting

In accordance with Article R. 225-30 of the French Commercial Code, we have been notified that the implementation of the following agreement, which was approved at a Shareholders' Meeting in a prior fiscal year, remained in effect during the fiscal year under review.

With Groupe Arnault SEDCS, a shareholder and Director of your Company

Persons concerned

Nicolas Bazire and Florian Ollivier, Directors

Nature and purpose

Assistance agreement

Your Company does not have any employees of its own. The assistance agreement entered into with Groupe Arnault SEDCS provides for the sharing of skills as well as certain costs, thus reducing expenses.

Conditions

In 2018, your Company paid Groupe Arnault SEDCS the sum of 212,430.65 euros including VAT (177,025.54 euros excluding VAT) under the assistance agreement of November 27, 1995, amended on October 23, 2009, relating to financial, tax and accounting services.

Courbevoie and Paris-La Défense, April 30, 2019

The Statutory Auditors,

French original signed by

MAZARS	ERNST & YOUNG et Autres
Simon Beillevaire	Jeanne Boillet

This is a free translation into English of a report issued in French. It is provided solely for the convenience of English-speaking users. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

Statement by the company officer responsible for the Annual Financial Report

We declare that, to the best of our knowledge, the financial statements have been prepared in accordance with applicable accounting standards and provide a true and fair view of the assets, liabilities, financial position and profit or loss of the parent company and of all consolidated companies, and that the Management Report presented on page 3 gives a true and fair picture of the business performance, profit or loss and financial position of the parent company and of all consolidated companies as well as a description of the main risks and uncertainties faced by all of these entities.

Paris, April 30, 2019

Florian OLLIVIER

Chairman and Chief Executive Officer

Design and production: Agence Marc Praquin

FINANCIERE AGACHE

11, rue François 1er – Paris 8e