FINANCIERE AGACHE

Translation of the French "Rapport financier annuel"
Fiscal year ended December 31, 2012

FINANCIERE AGACHE

2012 Annual Financial Report

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, 2012

BOARD OF DIRECTORS

Florian OLLIVIER
Chairman and Chief Executive Officer

Nicolas BAZIRE
Group Managing Director
Representative of Groupe Arnault SAS

Denis DALIBOT

Pierre DE ANDREA
Representative of Montaigne Finance SAS

Pierre DEHEN
Representative of GA Placements SA

Lord POWELL of BAYSWATER

STATUTORY AUDITORS

ERNST & YOUNG et Autres
represented by Olivier Breillot

MAZARS
represented by Simon Beillevaire

Contents

Management report of the Board of Directors

This report highlights significant events affecting the Financière Agache group in 2012.

1. Consolidated results

Consolidated revenue for the Financière Agache group for the year ended December 31, 2012 was 29,287 million euros, up 19% from the previous year.

Revenue was favorably impacted by the appreciation of the Group's main invoicing currencies against the euro, in particular the US dollar, which appreciated by 8% on average.

The following changes have been made in the Group's scope of consolidation since January 1, 2011: in Watches and Jewelry, Bulgari was consolidated with effect from June 30, 2011; in Selective Retailing, Ile de Beauté, one of the leading perfume and cosmetics retail chains in Russia, was consolidated with effect from June 1, 2011. These changes in the scope of consolidation made a positive contribution of 3 points to revenue growth for the year.

On a constant consolidation scope and currency basis, revenue grew by 9.5%.

The Group's profit from recurring operations was 6,014 million euros, up 13% compared to 2011. The current operating margin as a percentage of revenue decreased by 1 point from the previous year, to 21%.

Operating profit, after other operating income and expenses (a net expense of 180 million euros in 2012 compared with a net expense of 84 million euros in 2011), was 5,834 million euros, representing an increase of 12% from its level in 2011.

The Group posted a net financial expense for the year of 70 million euros. The Group had posted a net financial expense of 323 million euros in 2011.

The aggregate cost of net financial debt declined and represented an expense of 211 million euros compared with 230 million euros the previous year. In 2012, the Group benefited from a lower average cost of net financial debt, which more than offset the increase in average outstanding debt. Other financial income and expenses were positive, amounting to 141 million euros for the year, compared with a negative amount of 93 million euros in 2011. This positive result consists essentially of dividends received in connection with the Group's shareholding in Hermès, which increased significantly as a result of the payment of an exceptional dividend.

The Group's effective tax rate was 33% in 2012, compared to 30% in 2011.

Income from investments in associates was 49 million euros in 2012, up from 10 million euros in 2011.

Consolidated net profit amounted to 3,896 million euros, compared to 3,441 million euros in 2011. The Group share of consolidated net profit was 1,035 million euros, compared with 912 million euros in 2011.

The main financial items were as follows:

(EUR millions)	**2012**	**2011**	**2010**
Revenue	29,287	24,615	21,112
Profit from recurring operations	6,014	5,314	4,327
Operating profit	5,834	5,230	4,193
Net profit	3,896	3,441	3,265
of which: Group share	1,035	912	907

Revenue growth in 2012 by business group was as follows:

- Revenue from Christian Dior Couture totaled 1.2 billion euros, up 24% at actual exchange rates and up 17% at constant exchange rates compared to 2011. In 2012, boutique sales increased by 31% at actual exchange rates and by 23% at constant exchange rates. All product lines contributed to this performance.
- Wines and Spirits saw an increase in revenue of 17% based on published figures. Revenue for the business group increased by 11% on a constant consolidation scope and currency basis, with the net impact of exchange rate fluctuations raising Wines and Spirits revenue by 6 points. This performance was made possible by higher sales volumes and a sustained policy of price increases in line with the ongoing value-creation strategy. Surging demand in Asia made a particularly significant contribution to this strong upturn in revenue. China is still the second largest market for the Wines and Spirits business group.
- Fashion and Leather Goods posted organic revenue growth of 7%, and 14% based on published figures. This business group's performance benefited from the solid results achieved by Louis Vuitton, which recorded double-digit revenue growth. Céline, Loewe, Givenchy, Berluti, Donna Karan, and Marc Jacobs confirmed their potential, also delivering double-digit revenue growth in 2012.
- Revenue for Perfumes and Cosmetics increased by 8% on a constant consolidation scope and currency basis, and by 13% based on published figures. All of this business group's brands

performed well. This rebound confirmed the effectiveness of the value-enhancing strategy resolutely pursued by the Group's brands in the face of competitive pressures spawned by the economic crisis. The Perfumes and Cosmetics business group saw considerable revenue growth in the United States.

- Revenue for Watches and Jewelry increased by 6% on a constant consolidation scope and currency basis, and by 46% based on published figures. The consolidation of Bulgari with effect from June 30, 2011 boosted this business group's revenue by 34%. The rebuilding of inventories by retailers and the recovery in consumer demand helped to drive stronger revenue. For all of the business group's brands, Europe and Japan were the most dynamic regions.

- Based on published figures, revenue for Selective Retailing increased by 22%, and by 14% on a constant consolidation scope and currency basis. The 2% positive effect of changes in the scope of consolidation relates to the consolidation of Ile de Beauté, the Russian perfume and cosmetics retail chain, with effect from June 2011. The main drivers of this performance were Sephora, which saw considerable growth in revenue across all world regions, and DFS, which made excellent progress, spurred in particular by the continuing development of Chinese tourism boosting business at its stores in Hong Kong, Macao and Hawaii.

Revenue and profit from recurring operations by business group

	Revenue			Profit from recurring operations		
(EUR millions)	**2012**	**2011**	**2010**	**2012**	**2011**	**2010**
Christian Dior Couture	1,238	1,000	826	131	85	35
Wines and Spirits	4,122	3,511	3,250	1,250	1,092	919
Fashion and Leather Goods	9,926	8,712	7,581	3,264	3,075	2,555
Perfumes and Cosmetics	3,613	3,195	3,076	408	348	332
Watches and Jewelry	2,836	1,949	985	334	265	128
Selective Retailing	7,879	6,436	5,378	854	716	536
Other activities and eliminations	(327)	(188)	16	(227)	(267)	(178)
TOTAL	**29,287**	**24,615**	**21,112**	**6,014**	**5,314**	**4,327**

The breakdown of revenue by business group changed appreciably as a result of the consolidation of Bulgari in Watches and Jewelry with effect from June 30, 2011, with the contribution of this business group to consolidated revenue increasing by 2 points to 10%. The contribution of Selective Retailing advanced by 1 point to 27%. The contributions of Fashion and Leather Goods, and Perfumes and Cosmetics declined by 1 point to 34% and 12%, respectively. The contributions of Wine and Spirits and Christian Dior Couture remained stable at 14% and 4%, respectively.

Investments

The net balance from investing activities (purchases and sales) was a disbursement of 2,028 million euros. This includes, on the one hand, net operating investments totaling 1,851 million euros, and on the other hand, net financial investments totaling 177 million euros.

Research and development

Research and development expenses posted during the year totaled 69 million euros in 2012 (compared to 63 million euros in 2011 and 46 million euros in 2010). Most of these amounts cover scientific research and development costs for skincare and make-up products of the Perfumes and Cosmetics business group.

Workforce

As of December 31, 2012, the Group had a total workforce of 110,541 employees, up from 101,155 employees a year earlier.

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

The impact of exchange rate fluctuations is determined by translating the accounts for the accounting period of entities having a functional currency other than the euro at the prior fiscal year's exchange rates, without any other adjustments.

The impact of changes in the scope of consolidation is determined by deducting:
- for the period's acquisitions, revenue generated during the period by the acquired entities, as of their initial consolidation;
- for the prior period's acquisitions, current period revenue generated over the months of the prior period during which the acquired entities were not yet consolidated;

and by adding:
- for the period's disposals, prior period revenue generated over the months of the current period during which the entities sold were no longer consolidated;
- for the prior period's disposals, prior period revenue generated by the entities sold.

2. Results by business group

2.1. CHRISTIAN DIOR COUTURE

2.1.1. Highlights

The key highlights of 2012 were as follows:

Powerful appeal of products

Dior's strategy emphasizing excellence resulted in strong demand for the Leather Goods and Ready-to-Wear collections as well as the success of the Timepieces and Jewelry creations. Lastly, Haute Couture turned in excellent performance.

Robust sales growth in the network of directly owned points of sale worldwide

Revenue generated by Dior's retail activities improved by 31% at actual exchange rates and by 23% at constant exchange rates. This remarkable growth came from all geographic regions despite uncertainty in the economic environment in the second half of the year.

Significant growth in profit from recurring operations

Profit from recurring operations amounted to 131 million euros in 2012, growing by 54% compared to 2011 owing to stronger sales and continuous gross margin improvements.

Sustained and selective investments

Christian Dior Couture continued the qualitative expansion of its retail network.

Accordingly, major renovations took place in Tokyo (Ginza), Beijing (Financial Street), Milan, Taiwan (Taipei), Moscow (GUM), Prague and the United States (Beverly Hills).

The retail network was also expanded with new boutiques in China (Wuhan, Shenyang) and Taiwan (Taichung) as well as two Homme boutiques in New York and Miami.

The retail network thus comprised 205 points of sale as of December 31, 2012, including one for John Galliano SA.

Media campaigns dedicated to the brand and its savoir-faire

The inaugural Haute Couture and Women's Ready-to-Wear runway shows from new Artistic Director Raf Simons received an excellent reception.

An Haute Couture runway show was staged in Shanghai. For this show, the decor of Dior's Paris salons was entirely recreated on location. In Paris, Dior showcased its expertise in Fine Jewelry and the *Dear Dior* collection at the renowned Biennale des Antiquaires.

A "Lady Dior As Seen By" exhibition organized by a number of international visual artists and photographers was held for the reopenings of the boutiques in Tokyo, Milan and Shanghai.

The "Secret Garden" corporate campaign filmed in the gardens of the Château de Versailles has had an exceptional audience. Global advertising campaigns featured *Lady Dior* with Marion Cotillard, the *Miss Dior* handbag and the *Dior VIII* timepiece.

2.1.2. Consolidated results of Christian Dior Couture

Consolidated revenue amounted to 1,238 million euros, up 24% at actual exchange rates and 17% at constant exchange rates. Revenue progressed in the second half of the year, posting an increase of 20% at actual exchange rates and 14% at constant exchange rates.

Profit from recurring operations was 131 million euros, representing an increase of 46 million euros. This improvement in the profitability of operations was achieved through an appreciable boost in the gross margin.

Operating profit amounted to 132 million euros following the recognition of other operating income and expenses totaling 1 million euros, mainly in connection with reversals of provisions.

Net financial income/(expense) was a net expense of 15 million euros, compared with a net expense of 17 million euros in 2011. Net financial debt improved slightly.

The tax expense totaled 40 million euros.

The Group share of net profit was 72 million euros, with the amount attributable to minority interests totaling 6 million euros.

2.1.3. Analysis of revenue by business activity

(EUR millions)	2012	2011	Change at actual rates	Change at constant rates
License royalties	29	35	-15%	-18%
Wholesale activities	107	123	-13%	-14%
Retail and other activities	1,102	842	+31%	+23%
TOTAL	**1,238**	**1,000**	**+24%**	**+17%**

License royalties

The termination of the Christian Dior Couture license for telephones contributed to the decline in royalties.

Eyewear made further advances during the year, reflecting the success of a highly selective policy for the distribution of these product lines.

Wholesale activities

The distribution strategy embodying a more selective approach with multi-brand clients resulted in a decrease of the relative contribution by this segment to Group revenue.

Retail and other activities

(EUR millions)	2012	2011	Change at actual rates	Change at constant rates
Europe and the Middle East	493	388	+27%	+24%
Americas	101	79	+27%	+18%
Asia-Pacific	508	375	+35%	+24%
TOTAL	**1,102**	**842**	**+31%**	**+23%**

- Retail sales turned in an excellent performance once again in 2012, recording an increase of 31% at actual exchange rates and 23% at constant exchange rates.
- All regions saw double-digit growth at both actual exchange rates and constant exchange rates. The Asia-Pacific region saw exceptional growth of 35%. Europe and the Americas also recorded very satisfactory advances at 27%.
- In the Group's retail network, 2012 was rich in notable events. Key highlights included the inaugurations of Shenyang and Wuhan in China, Taichung in Taiwan, and Miami, as well as the reopenings of Milan, Taipei (Taiwan) and Tokyo Ginza.
- With regard to products, Leather Goods saw the development of new *Miss Dior* and *Diorissimo* handbag lines, accompanying the continuing success of the emblematic *Lady Dior* models.
- Men's and Women's Ready-to-Wear also witnessed a remarkable rise in sales, particularly in high-growth markets.
- Christian Dior Couture consolidated its position in luxury timepieces with the launch of *Dior VIII Blanche*, while continuing to expand the range of Fine Jewelry offerings, notably with *Dear Dior*.

2.1.4. Outlook

In 2013, Christian Dior Couture will continue to emphasize excellence in its product-boutique-communication triumvirate, drawing on its exceptional savoir-faire and capacity for innovation.

Many events are planned for 2013, all dedicated to serving growth objectives in the Group's strategic markets and the development of new high-potential segments.

2.2. WINES AND SPIRITS

2.2.1. Highlights

In 2012, revenue for the Wines and Spirits business group amounted to 4,122 million euros, representing an increase of 17% based on published figures and 11% at constant structure and exchange rates.

Profit from recurring operations for Wines and Spirits was 1,250 million euros, up 14% compared to 2011. This performance was the result of both sales volume growth and a sustained policy of price increases. Control of costs, together with the positive impact of exchange rate fluctuations, partially offset the rise in advertising and promotional expenditures focused on strategic markets. The operating margin as a percentage of revenue fell 1 point for this business group to 30%.

2.2.2. Main developments

Champagnes and Wines

Moët & Chandon consolidated its position as the world leader in champagne thanks to its expansion in emerging markets coupled with a good performance in Japan and Australia as well as a reaffirmed value-creation strategy in the United States. The champagne house successfully launched its *Grand Vintage 2004*. The new Mont Aigu winery is the first step in a major project and expands on the production capacity of the historic sites while maintaining its strong focus on quality control.

Dom Pérignon's strong revenue growth, especially in Japan, was boosted by the successful launches of two new vintages: *Dom Pérignon 2003* and *Dom Pérignon Rosé 2000*. The brand continued to deploy its Power of Creation concept, organizing exceptional events with world-famous creators.

Mercier, a leading brand in France, continued to develop its presence at traditional dining venues.

Veuve Clicquot pursued its value-creation strategy successfully, with many new innovative products, such as *Ponsardine* and *Suit Me*. Veuve Clicquot *Season* events, such as polo tournaments in New York and Los Angeles, continued to underpin the Veuve Clicquot's communication. *Veuve Clicquot Rosé* confirmed its excellent results. Like the other champagne brands, the brand significantly improved its performance in Japan and Australia, and growth also continued in emerging markets such as Russia, Brazil, and South America.

Ruinart continued to progress in France and to develop internationally, most notably in Asia, Africa and Latin America. The *Miroir* collection, designed by Hervé Van der Straeten, has made Ruinart's emblematic *Blanc de Blancs* an even bigger success. Increasingly engaged in the world of contemporary art, Ruinart is now the official champagne of many international art fairs.

Krug achieved good growth in Europe and demonstrated excellent momentum in Japan as well as elsewhere in the Asia-Pacific region. In the United States, the champagne house continued to redeploy its operations. Through such events as its "Lieux éphémères" in New York, Paris and London, and its "Voyages Ambassades", Krug affirmed its exceptional and unique character.

Estates & Wines still and sparkling wines once again posted significant revenue growth. Chandon continued its vigorous gains and launched its innovative *Chandon Délice* cuvée with success. Still wines benefited from upmarket repositioning and posted very strong performances.

Demand for the broad range of **Château d'Yquem** vintages is growing in emerging markets. Auction prices for mythical rare bottles have confirmed its legendary status. **Château Cheval Blanc** consolidated its rank as a 1er Grand Cru Classé A.

Cognac and Spirits

As was the case in 2011, sales of all qualities of **Hennessy** cognac grew strongly in all regions. The world's number one cognac, in terms of both volume and value, Hennessy achieved historical heights of performance in 2012. The main driver of its rapid growth continued to be Asia, where in an environment of managed development of prestige quality volumes, the younger qualities have performed quite robustly, as seen by the very promising launch of *Classivm* in China.

Hennessy continues to progress throughout the Asian market, and to maintain strong positions in Taiwan, Vietnam, Malaysia and China, where well over a million cases have been sold. The brand has confirmed its number-one position in the Americas while growing rapidly in many promising new markets, such as Mexico, Eastern Europe, Nigeria, South Africa and the Caribbean.

Glenmorangie and **Ardbeg** single malt whiskies once again progressed rapidly in their key markets. Glenmorangie is increasing its visibility in the United Kingdom by becoming the new sponsor of The Open, the world's most prestigious golf tournament. To celebrate its experiment in "molecular aging" on board the International Space Station, Ardbeg released *Galileo*, a limited edition whisky that was highly successful in most markets.

Belvedere vodka showed good momentum, particularly outside of American markets. In the United States, its first televised advertising campaign was launched late in the year.

10 Cane rum raised its profile with new packaging and a changed formula.

Wenjun pursued its expansion, aiming to become China's number one luxury brand of baiju, the world's best-selling white liquor, and gained significantly in renown across the territory.

2.2.3. Outlook

In 2013, Wines and Spirits Houses will maintain a strategy of value-creation and targeted innovation, with the goal of continuously enhancing the desirability and reputation of their products throughout the world. Active efforts will be made to increase prices and move the product mix further upmarket, in conjunction with substantial investments in communication, particularly via online media. With the outlook for Europe's economy uncertain, Moët Hennessy maintains its firm ambitions for its mature markets and will accelerate expansion in emerging markets, especially those of Asia. A powerful global distribution network and experienced, performance-driven staff should enable the business group to continue to grow consistently and profitably, and to strengthen its leadership in the world of luxury wines and spirits.

2.3. FASHION AND LEATHER GOODS

2.3.1. Highlights

Fashion and Leather Goods posted revenue of 9,926 million euros in 2012, representing organic revenue growth of 7% and 14% based on published figures.

Profit from recurring operations for this business group was 3,264 million euros, up 6% compared to 2011. Profit from recurring operations for Louis Vuitton increased; Céline, Loewe, Givenchy and Marc Jacobs confirmed their profitable growth momentum. The operating margin as a percentage of revenue was 33%.

2.3.2. Main developments

Louis Vuitton

Louis Vuitton achieved another year of double-digit revenue growth, a performance all the more remarkable as it was driven by the contributions of every one of its businesses. Revenue growth continues to be coupled with exceptional profitability.

Backed by consistent strategy and the continued excellence of its savoir-faire, Louis Vuitton pursued carefully managed expansion plans in 2012, once again demonstrating its inexhaustible creativity.

In a mixed global business environment, Louis Vuitton's various customer segments reaffirmed their attachment to the brand and their endorsement of its focus on quality. Asian customers, who are venturing beyond their borders in ever larger numbers, continue to embody a strong dynamic. Purchases by US customers have also shown particularly remarkable progress. In Europe, Louis Vuitton made steady gains, still fully reaping the rewards of the brand's extraordinary appeal among both local and international customers.

In leather goods, the Maison placed special emphasis during the year on its fine leather lines. The Maison also continued to expand its Haute Maroquinerie collection, a fine testament to the excellence of its artisanal savoir-faire and the high degree of sophistication offered to Vuitton's customers. At the end of 2012, Louis Vuitton opened its first "Cabinet d'Écriture" on the Place Saint-Germain-des-Prés in Paris. This space is dedicated entirely to the art of writing, a universe long treasured by the Maison and often associated with travel.

Louis Vuitton continued the selective, quality-driven development of its network of stores. Following the grand opening of the Roma Étoile Maison and a boutique in Amman marking the brand's arrival in Jordan, the July reopening of the Maison in Shanghai at Plaza 66, which coincided with the celebration of Louis Vuitton's 20th anniversary in China, was one of the high points of the year. Louis Vuitton also expanded into Kazakhstan and unveiled its first shoe salon at Saks Fifth Avenue department store in New York. Finally, the second half of the year saw the launch of Louis Vuitton's first boutique exclusively dedicated to fine jewelry and timepieces, complete with its own workshop, on the Place Vendôme in Paris.

Fendi

Fendi continued the quality-driven expansion of its retail network with the aim of raising the brand's profile through more spacious stores, better able to showcase its high-end offerings. In addition, Fendi put in place a more selective policy to govern its presence in multi-brand stores. In leather goods, 2012 was a year of record sales for the brand's iconic *Baguette* bag, marking its 15th anniversary. Fendi's other star lines, *Peekaboo* and *Selleria*, also continued to see strong growth, while its newly launched *2Jours* model performed remarkably well. Fur, the brand's most iconic symbol, enjoyed increased visibility. Fendi carried out selective store openings in certain high-end department stores in Europe and Japan. The brand further expanded its retail network in Mexico, the Middle East, and in Asia, with the opening of a new Fendi flagship store on Canton Road in Hong Kong.

Other brands

Céline performed remarkably well in 2012, setting new records for revenue and profit. The brand saw impressive growth across all geographic regions and product categories. Céline's ready-to-wear collections continue to vigorously reaffirm the brand's identity, associated with iconic modernity, timeless elegance and quality. Its leather goods performed exceptionally well again, buoyed by the success of the iconic lines *Luggage*, *Cabas* and *Classic*, combined with the strong results of the year's innovative additions, including *Trapèze*. Céline has launched a refurbishment and expansion plan targeting its retail network, which will move into higher gear in 2013.

Marc Jacobs recorded steady growth, with particularly strong gains in Japan and in the rest of Asia. The brand's vitality is driven by the continued success of the designer's upscale *Marc Jacobs Collection*. Benefiting from a strong position in the growing contemporary fashion market, the heightened sophistication of the designer's second line, *Marc by Marc Jacobs*, is building on its success. The *Denim* line also had an excellent year.

Donna Karan has moved forward with its strategy, whose major thrusts are the qualitative expansion of the brand's distribution network combined with efforts to intensify the spirit of its designs, always reflecting the pulse of New York, so central to Donna Karan's values. The brand's results in 2012 were buoyed by the reacquisition of the *DKNY Jeans* line on a direct basis, whose new market positioning, marrying chic and casual, has garnered kudos. Donna Karan is also building on the success of its *DKNY* accessories collection while expanding its presence around the world, in particular by adding new retail locations in China and inaugurating its first stores in Russia.

Loewe performed well, in terms of both revenue and profit. In leather goods, the iconic *Amazona* line as well as *Flamenco*, a more recent addition, remain strong sellers for the brand. Loewe continued the roll-out of its new store concept designed by architect Peter Marino. A flagship store was unveiled on Barcelona's Paseo de Gracia, with a Galeria Loewe museum next door. The Getafe production site will soon expand in size with the upcoming opening of a center dedicated to leather cutting as well as a leather crafts school.

Under the guidance of the creative team of Humberto Leon and Carol Lim, **Kenzo** has recovered the young and modern energy and spirit responsible for its early renown. Warmly received by the press, the successes of the team's first collections were further underpinned by a new advertising campaign produced by Jean-Paul Goude.

Givenchy had an excellent year, reaching record levels for both revenue and profit. Accessories and men's ready-to-wear made particularly strong gains. In leather goods, the *Antigona* bag continues to perform well and has become a new iconic model alongside the popular *Nightingale* and *Pandora* lines. Givenchy expanded its presence in China during the year.

Thomas Pink has further reinforced its specialist positioning as a quintessentially British, chic and upscale shirtmaker. The brand has proceeded with its expansion plans in key markets, reflected in the signing of a joint venture with a Chinese partner and store openings in South Africa and India. Its online sales are growing rapidly.

Pucci continues to revamp its brand image, as reflected in its latest advertising campaign. The brand unveiled its new store concept with the opening of a flagship store in New York as well as its first retail location in mainland China.

Berluti has seen rapid growth, driven by its creative renewal and a strengthened international presence. The ready-to-wear collections designed by creative Director Alessandro Sartori and the brand's many new shoe creations have been very positively received. Berluti acquired Arnys, a specialist in made-to-measure tailoring for men, as well as the bootmaker Anthony Delos. The brand has begun the roll-out of its new boutique concept, designed to showcase all of its product categories.

2.3.3. Outlook

Louis Vuitton will maintain its strong innovative momentum in 2013, thus further heightening its appeal across all its product categories. Alongside the further development of the iconic *Monogram* canvas, special initiatives will be focused on the leather lines and its Haute Maroquinerie collection. Qualitative development of the brand's retail network will remain a key priority, in line with Louis Vuitton's relentless quest to offer its customers a unique experience in each and every one of its exceptional stores. Thanks to its talented teams and their culture of excellence, Louis Vuitton plans to further optimize its organization in order to accompany its revenue growth and strengthen the various centers of expertise that constitute its universe.

Fendi will continue to emphasize the development of its high-end offerings and its fur creations. More spacious stores will be opened, as part of a revamping and expansion of the brand's retail network. A new store concept, currently under development, will be rolled out initially at key Fendi locations, including New Bond Street in London, Avenue Montaigne in Paris and Via Montenapoleone in Milan.

Driven by their creative spirit, the business group's **other brands** will continue to bolster their strategic markets in 2013. A distinctive and compelling identity will serve as the foundation for further growth, reaffirming the relevance of the strategic choices made. By harnessing their creativity, their pursuit of excellence, and their savoir-faire, the brands' teams will reinforce the effectiveness of actions across all dimensions of business development.

2.4. PERFUMES AND COSMETICS

2.4.1. Highlights

Perfumes and Cosmetics recorded revenue of 3,613 million euros in 2012. At constant structure and exchange rates, revenue increased by 8% and by 13% based on published figures.

Profit from recurring operations for Perfumes and Cosmetics was 408 million euros, up 17% compared to 2011. This growth was driven by Parfums Christian Dior, Benefit, Guerlain, and Parfums Givenchy, all of which posted improved results thanks to the success of their market-leading product lines and strong innovative momentum. The operating margin as a percentage of revenue remained stable at 11%.

2.4.2. Main developments

Parfums Christian Dior

Thanks to the brand's exceptional reach and appeal, **Parfums Christian Dior** again reported excellent results. Perfume sales were buoyed by the exceptional vitality of its emblematic product lines. *J'adore* further strengthened its leadership position in France and gained market share in all countries. *Miss Dior* has opened a new page in its history with the launch of *Eau Fraîche* and *Miss Dior Le Parfum*. *Dior Homme Sport* recorded strong growth and is now firmly positioned as one of the leading men's fragrances. Other notable successes of 2012 were the major relaunches of *Eau Sauvage Parfum* and two new versions of *Dior Addict*, targeting younger consumers. Two new exclusive fragrances were added to the *Collection Privée Christian Dior*.

Make-up lines maintained their excellent international momentum, fueled by the successful launches of *Diorshow New Look* mascara and of *Diorskin Nude*. The exceptional reception for the new lipstick *Dior Addict Extrême* helped solidify *Dior Addict Lipstick*'s position as number one in its main markets.

In skincare, the premium *Prestige* line, emblematic of Dior's innovative and high-end savoir-faire, saw solid growth during the year.

Guerlain

Guerlain maintained its strong growth momentum. Fully reflecting its singular creative spirit, and spurred by operational excellence, *La Petite Robe Noire* turned in truly exceptional results, rising to the number two position in the French market only eight months after its launch. *Orchidée Impériale* again recorded double-digit growth, confirming its position as the mainstay of Guerlain's skincare line.

Guerlain is focusing its development efforts on its strategic markets, especially China and France, where it has gained market share for the sixth consecutive year. Reaffirming its status as a top-tier luxury brand, Guerlain further expanded its selective retail network and now has nearly a hundred exclusive points of sale worldwide.

Other brands

Parfums Givenchy performed particularly well in Russia, China, the Middle East and Latin America. The most successful lines in 2012 were *Dahlia Noir*, launched globally during the year, and *Play pour Homme*, extended with a *Sport* version. Strong growth was seen in the make-up segment, thanks in particular to the success of *Noir Couture* mascara, now benefiting from wider distribution.

Kenzo Parfums was buoyed by the solid performance of its new fragrance *KenzoHomme Sport*. *Madly Kenzo* expanded its distribution, notably in Russia and Latin America, where the fragrance made strong headway.

Fendi Parfums strengthened its presence across a number of countries. The initial results achieved by *Fan di Fendi Extrême* and *Fan di Fendi pour Homme*, launched at the end of the year, were very promising.

Thanks to a unique positioning, appreciated for its playful and offbeat style, **Benefit** again recorded double-digit revenue growth in all of its markets. *They're Real!* mascara and *Hello Flawless!* powder foundation were in great demand. The brand has stepped up the pace of its expansion in Southeast Asia and has moved into new, high-potential markets such as Philippines and Vietnam.

Make Up For Ever had another year of strong growth, fueled by the contributions of its two star product lines, *HD* and *Aqua*. The brand successfully expanded into two new markets, Brazil and Mexico. After Paris and Los Angeles, Make Up For Ever has opened a new directly-owned store in Dallas.

Parfums Loewe delivered a fresh boost to its international expansion, especially in Russia. Following its successful opening in Hong Kong, Fresh inaugurated its expansion into mainland China. **Acqua di Parma** reinforced its retail network with the opening of two new stores in Milan and Paris.

2.4.3. Outlook

In keeping with the momentum developed in 2012, all LVMH brands have a dynamic year ahead of them in 2013 and will maintain their ambitious strategies in terms of innovation and advertising investments. Each shows strong growth potential and they have set new targets for market share gains.

Parfums Christian Dior will continue to affirm its status as a Maison de Haute Parfumerie, increasing its visibility and appeal in close association with the world of Haute Couture. The focus will once again be on Dior's star fragrance lines. The quality-driven reinforcement of the brand's retail network through an ambitious refurbishment program will be a key development priority.

Guerlain will pursue its ambitious plans for the development of *La Petite Robe Noire*, in France and internationally. It will also affirm its status as an exceptional Perfume House with the design of a new, revamped flagship boutique at its legendary address, 68 Avenue des Champs-Élysées, due to open in the second half of 2013.

Parfums Givenchy will celebrate the 10th anniversary of the *Very Irrésistible* line with a new advertising campaign, and will launch a new men's fragrance, a modern take on Givenchy's long-standing core values.

At **Kenzo Parfums**, the *FlowerbyKenzo* line will be expanded with a new version. **Fendi Parfums** will enhance its collection with the launch of a new, highly luxurious women's fragrance in the second half of the year.

Benefit will pursue expansion in all regions, focusing on effective and ingenious innovations. In Asia, the brand will move into the Indian and Indonesian markets, poised to serve as significant drivers of further growth. **Make Up For Ever** will expand its retail network in both the Middle East and Asia, and will enhance its communications, particularly in the digital realm.

2.5. WATCHES AND JEWELRY

2.5.1. Highlights

In 2012, Watches and Jewelry posted revenue of 2,836 million euros, representing a 6% increase on a constant consolidation scope and currency basis (46% based on published figures).

Profit from recurring operations for Watches and Jewelry was 334 million euros, up 26% with respect to 2011. This sharp rise was due mainly to the consolidation of the results of Bulgari's operations. Since the operating margin achieved by Bulgari was lower than the average margin for the business group as a whole, Watches and Jewelry nevertheless saw a 2 point decline in its operating margin as a percentage of revenue, to 12%.

2.5.2. Main developments

TAG Heuer

TAG Heuer set new records in revenue and profit in 2012. The brand delivered particularly remarkable performances in Europe, Japan and the Middle East, and proved very resilient in the United States. It continued to illustrate its unique savoir-faire in speed and precision control with the *MikrotourbillonS* model, presented at Baselworld, and the *Carrera Mikrogirder* chronograph, winner of the Geneva Watchmaking Grand Prix. The brand proceeded with its manufacturing integration, increasing in-house production of its *Calibre 1887* automatic movements and building a new movement manufacturing facility. TAG Heuer asserted itself as a major Swiss market player, also producing watch cases at its Cortech unit and dials at its ArteCad subsidiary, which joined the Group in 2012. The brand launched its new *Link Lady* women's line, embodied by Cameron Diaz, who joins the prestigious ranks of TAG Heuer's brand ambassadors. A sponsorship deal was also set up with Oracle Team USA for the America's Cup. The brand's retail network continued to expand, reaching nearly 155 directly-owned and franchised stores.

Hublot

Hublot continued to record remarkable growth in sales volume and value. Its *Classic Fusion* line met with increasing success alongside the other iconic lines *King Power* and *Big Bang*. A new version of *Big Bang*, launched in partnership with Ferrari, encapsulates the two brands' shared values of performance and design. Hublot reaffirmed its great creativity and upmarket strategy by developing high-end models in women's watches and jewelry. Cutting-edge technology was behind the first timepieces produced with the brand's new, scratch-resistant gold alloy, *Magic Gold*. The brand stepped up in-house production of its UNICO chronograph movement and began manufacturing numerous complications with high added value, thus reaping the rewards of its strategy to integrate technological and manufacturing expertise. Hublot accelerated its worldwide expansion with some twenty new openings, bringing the number of its points of sale to 54 at year-end 2012.

Zenith

Zenith kept up its solid growth in the highly exclusive world of prestige manufacturing brands. The brand's collection, which had been totally reworked over the past three years, was refocused on its five iconic product lines. The famous *El Primero Striking 10th* chronograph, true to its avant-garde technology, raised its profile thanks to the widespread media coverage of Felix Baumgartner's supersonic leap wearing a Zenith *Stratos* watch. While the manufacturing facility in Le Locle was undergoing major renovations, the brand's network of stores continued its selective expansion in high-potential markets.

Bulgari

Bulgari performed well and pursued its integration within the business group. In jewelry, it enjoyed success with the new designs that enhanced the iconic *Serpenti* and famous *B.zero1* lines. The brand's creativity and the savoir-faire of its craftspeople were in the limelight at the Paris Biennale des Antiquaires, with more than a hundred new pieces on display. In the watches segment, the new *Bulgari Octo* was positioned as the men's top-of-the-line premium timepiece. Sales of accessories continued to grow, fueled by the wide array of *Isabella Rossellini* handbag range extensions. While maintaining distribution on a very selective basis, fragrances continued their development with the launch of *Bulgari Man* and *Mon Jasmin Noir*. The successful program to raise funds from sales of the ring created specifically for Save the Children set new standards in corporate social responsibility. The brand's retail network enhanced its upscale image through an ambitious store expansion and renovation project. Bulgari unveiled its first presence in Brazil. After Rome, Paris and Beijing, a new retrospective organized in Shanghai paid tribute to the brand's artisanal and cultural heritage.

Other brands

At the Biennale des Antiquaires, **Chaumet** presented its collection of high-end jewelry, *12 Vendôme*, which subtly blends modernity and the French tradition to which it remains historically linked. It successfully strengthened its position in jewelry watches and men's watches, and continued to expand in China. **Montres Dior** reinforced its upscale image with new models in the *Dior VIII* collection and with the *Grand Bal* limited edition, in keeping with the vision and tradition of Haute Couture excellence upheld by the brand. The brand coupled this strategy with ever increasing selectivity in its distribution network.

De Beers, the leading reference in the solitaire diamonds segment, showcased the full extent of its savoir-faire in a recent collection of high-end jewelry, *Imaginary Nature*. De Beers continued its expansion in China with a fourth boutique, this time in Shanghai. With its eminently contemporary designs, **Fred** recorded rapid targeted growth in France and Japan. Its iconic *Force 10* line continued to gain ground, and a new collection, *Baie des Anges*, was released.

2.5.3. Outlook

The favorable trends seen in the last few months of the year offer the perspective of a confident and determined start to 2013 despite current economic uncertainties. Significant marketing and communications investments targeted on the principal markets will further strengthen the image and visibility of all watch and jewelry brands.

The retail network will continue to expand in China, with the opening of new boutiques, as well as on other strategic markets. All brands will support the development of iconic product lines while at the same time maintaining rigorous control over costs and promoting synergies, especially in manufacturing.

2.6. SELECTIVE RETAILING

2.6.1. Highlights

Selective Retailing posted revenue of 7,879 million euros in 2012, representing an increase of 22% and 14% on a constant consolidation scope and currency basis. Profit from recurring operations for this business group was 854 million euros, up 19% compared to 2011.

The operating margin as a percentage of revenue for Selective Retailing taken as a whole remained stable at 11%.

2.6.2. Main developments

DFS

DFS once again reported strong growth in both sales and profits, buoyed by solid momentum from its Asian clientele, and particularly in Hong Kong and Macao. Three major concessions were won at Hong Kong airport in 2012, and DFS saw its concession renewed at the Los Angeles airport, where a major upgrade is underway. The opening of a third *Galleria* in Hong Kong's Causeway Bay neighborhood enabled DFS to expand its presence in this high-potential tourist destination.

While continuing to benefit from an expanding Asian clientele, DFS remained focused on diversifying both its customer base and its geographical coverage. It continued with its strategy of upscaling across all destinations, renovating existing stores and bringing in new luxury brands aimed at strengthening the vitality and appeal of its product range.

Miami Cruiseline

Miami Cruiseline, which enjoys a strong position in the cruise market, delivered a solid performance. Business related to the Asian and South American routes saw strong growth, buoyed by rising passenger spending and an increase in cruise line capacity. Miami Cruiseline continued to move its boutiques further upmarket and adapt its sales approach and product range to suit the specific characteristics of each region and each cruise line's customers.

Sephora

Sephora continued to deliver an excellent set of performances, winning market share in all its regions. As the only global selective retailer of perfumes and cosmetics, Sephora proposes an innovative offering combined with a unique range of major selective brands. It has further added to its exclusive services by developing beauty bars and nail bars. Launched in the United States in 2011, the mobile payment system, which allows customers to pay for their purchases directly with a sales assistant, was extended in 2012 to France, where a new tool for personalizing in-store customer relations, *MySephora*, was also rolled out.

Sephora runs a continuous skills development program for its staff in order to ensure that its customers benefit from the best possible expertise. As of December 31, 2012, its global network comprised 1,398 stores in 30 countries. Three new online retail sites were launched in Italy, Canada and Russia. The US site, which after being completely overhauled offers an unrivaled online sales experience, stepped up the pace of its growth. A mobile application was also launched in the United States and France.

Sephora strengthened its positions in Europe, particularly in France and Italy, where the brand enjoyed sustained growth. Two new countries – Denmark and Sweden – were added in 2012. In Russia, the Ile de Beauté chain, in which Sephora holds a 65% stake, posted an excellent performance. Exceptional growth momentum was maintained in the United States, while Sephora also consolidated its success in Canada. Brand awareness in this market was boosted by the renovation of several flagship stores in New York.

Sephora stepped up its expansion in China at the same time as launching a program to renovate its existing network. It made particularly rapid progress in Mexico, Malaysia, Singapore and the Middle East. The retailer also opened its first stores in the high-growth markets of Brazil and India.

Le Bon Marché Rive Gauche

Le Bon Marché Rive Gauche delivered a strong performance, buoyed by the luxury and women's fashion segments. The world's first ever department store celebrated its 160th birthday in 2012. Major commercial projects were carried out, including the opening of new luxury boutiques and the inauguration of a new menswear department combining high-quality products with unique services. Work began on the transformation of La Grande Épicerie de Paris food store with the inauguration of a spectacular wine department setting a new standard in quality. New websites for Le Bon Marché Rive Gauche and La Grande Épicerie were launched at the end of the year.

2.6.3. Outlook

DFS is set to benefit in 2013 from a full year of activity at its new Hong Kong airport concessions as well as continued work to extend and renovate its stores. DFS's appeal will be heightened by the installation of new facades for its *Gallerias* and the development of innovative marketing and service programs. The completion of renovation work at the *Gallerias* in Macao, Hawaii and Singapore Scottswalk will enable the business to enhance its product range. DFS will continue to look out for opportunities to diversify both its customer base and its geographical coverage.

Miami Cruiseline, which is well placed to leverage the globalization of the cruise market, will continue with its store renovation program and maintain its efforts to hone its sales approach and target its offering to various distinct customer groups.

Sephora will continue with its ambitious international expansion plans, particularly in Southeast Asia and Latin America. In China, one of the high points for the beginning of the new year will be the opening of a flagship store in Shanghai. Sephora will more than ever place the emphasis on a customer-focused strategy, extending its loyalty program to new regions and offering new personalized services. Product and service innovation will remain at the heart of its priorities both in stores and in the digital universe.

Le Bon Marché Rive Gauche will remain focused on the exceptional values that define its unique character as a concept store, as well as continuing to develop its commercial plans with the opening of a new watches and accessories department and the completion of renovation work at La Grande Épicerie de Paris. A new customer relations program will also be implemented.

3. Business risk factors and insurance policy

3.1. STRATEGIC AND OPERATIONAL RISKS

3.1.1. Group's 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, as well as the promotional and marketing strategies applied. Products or marketing strategies not in line with brand image objectives, inappropriate behavior by our brand ambassadors, the Group's employees, distributors or suppliers, as well as detrimental information circulating in the media might endanger the reputation of the Group's brands and adversely impact sales. The net value of brands and goodwill recorded in the Group's balance sheet as of December 31, 2012 amounted to 21.8 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 all brand and 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 vigilance in relation 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 its Watches and Jewelry business group, 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, retail price management, etc. In order to discourage inappropriate practices, distribution agreements include strict guidelines on these matters, which are also monitored on a regular basis by Group companies.

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. All Group employees are conscious of the importance of acting at all times in accordance with the ethical guidelines communicated within the Group. Finally, in order to protect against risks related to an eventual public campaign against the Group or one of its brands, the Group monitors developments in the media on a constant basis and maintains a permanent crisis management unit.

3.1.2. Counterfeit and parallel retail networks

The Group's brands, expertise and production methods can be counterfeited or copied. Its products, in particular leather goods, perfumes and cosmetics, may be distributed in parallel retail networks, including Web-based sales networks, without the Group's consent.

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 takes all possible measures to protect itself against these risks.

Action plans have been specifically drawn up to address the counterfeiting of products, in addition to the systematic protection of brand and 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 of December 22, 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, when the Commission renewed the Block Exemption Regulation, and extended its application to retail sales over the Internet. 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 2012, anti-counterfeiting measures generated internal and external costs in the amount of approximately 29 million euros.

3.1.3. 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, 2012, the total amount of minimum commitments undertaken by the Group in respect of multi-year lease, concession, and procurement agreements amounted to 7.5 billion euros. Detailed descriptions of these commitments may be found in Notes 30.1 and 30.2 to the consolidated financial statements. However, no single agreement exists whose termination would be likely to result in significant costs at Group level.

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 Group company 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 entered into commitments to its partners in some of its business activities to acquire the stakes held by the latter in the activities in question should they express an interest in such a sale, according to a contractual pricing formula. As of December 31, 2012, this commitment is valued at 5 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.

3.1.4. Anticipating changes in expectations of Group customers

Brands must identify new trends, changes in consumer behavior, and in consumers' tastes, in order to offer products and experiences that meet their expectations, failing which the continued success of their products would be threatened. By cultivating strong ties, 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 identify and its particular affinities in its sphere of activity.

3.1.5. 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 against 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 boutiques operated by companies in the Fashion and Leather Goods business group. Events likely to reduce the number of tourists (geopolitical instability, weakening of the economic environment, natural catastrophes, etc.) might 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.

3.1.6. Consumer safety

In France, the European Union and all other countries in which the Group operates, many of its products are subject to specific regulations. Regulations apply to production and manufacturing conditions, as well as to sales, consumer safety, product labeling and composition.

In addition to industrial safety, the Group's companies also work to ensure greater product safety and traceability to reinforce the Group's anticipation and responsiveness in the event of a product recall.

A legal intelligence team has also been set up in order to better manage the heightened risk of liability litigation, notably that to which the Group's brands are particularly exposed.

3.1.7. Seasonality

Nearly all of the Group's activities are subject to seasonal variations in demand. A significant proportion of the Group's sales is generated during the peak holiday season in the fourth quarter of the year. This proportion is approximately 30% of the annual total for all businesses. Unexpected events in the final months of the year may have a significant effect on the Group's business volume and earnings.

3.1.8. Supply sources and strategic competencies

The attractiveness of the Group's products depends, from a quantitative and qualitative standpoint, on being able to ensure adequate supplies of certain raw materials. In addition, from a qualitative perspective, these products must meet the Group's exacting quality standards. This mainly involves the supply of grapes and eaux-de-vie in connection with the activities of the Wines and Spirits business group, of leathers, canvases and furs in connection with the activities of the Fashion and Leather Goods business group, as well as watchmaking components, gemstones and precious metals in connection with the activities of the Watches and Jewelry business group. In order to guarantee sources of supply corresponding to its demands, the Group sets up preferred partnerships with the suppliers in question. Although the Group enters into these partnerships in the context of long term commitments, it is constantly on the lookout for new suppliers also able to meet its requirements. By way of illustration, an assessment of the risk that a vendor may fail has been carried out and good practices have been exchanged, leading notably to implementing the policy of splitting supplies for strategic Perfumes and Cosmetics products.

In addition, for some rarer materials, or those whose preparation requires very specific expertise, such as certain precious leathers or high-end watchmaking components, the Group pursues a vertical integration strategy on an ad hoc basis.

The Group's professions also require highly specific skills and expertise, in the areas of leather goods or watchmaking, for example. In order to avoid any dissipation of this know-how, 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 respond in the best possible manner to its demands and requirements.

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 expertise in the real estate field which, shared with that of companies across the Group, contributes to the optimal development of its retail network.

3.1.9. Information systems

The Group is exposed to the risk of information systems failure, as a result of a malfunction or malicious intent. The occurrence of this type of risk event may result in the loss or corruption of sensitive data, including information relating to products, customers or financial data. Such an event may also involve the partial or total unavailability of some systems, impeding the normal operation of the processes concerned. In order to protect against this risk, the Group puts in place a decentralized architecture to avoid any propagation of this risk. Supported by its network of IT security managers, the Group continues to implement a full set of measures to protect its sensitive data as well as business continuity plans at each Group company.

This sensitive data includes personal information obtained from the Group's customers and employees, which requires very specific protection procedures. The Group has thus developed good governance tools intended for use by all Group companies, including guidelines for online marketing and the protection of data.

3.1.10. Industrial, environmental and climate risks

In Wines and Spirits, production activities depend upon climate conditions before the grape harvest. Champagne growers and merchants have set up a mechanism in order to cope with variable harvests, which involves stockpiling wines in a qualitative reserve.

In the context of its production and storage activities, the Group is exposed to the occurrence of losses such as fires, water damage, or natural catastrophes.

To identify, analyze and provide protection against industrial and environmental risks, the Group relies on a combination of independent experts and qualified professionals from various Group companies, and in particular safety, quality and environmental managers.

The protection of the Group's assets is a fundamental part of the industrial risk prevention policy, which meets the highest safety standards (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. In 2012 at LVMH, engineering consultants devoted about a hundred audit days to the program.

In addition, prevention and protection schemes include contingency planning to ensure business continuity.

3.2. 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 contingency plans;
- a 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 does not appear significant. The deductibles payable by Group companies in the event of a claim notably reflect an optimal balance between coverage and the total cost of risk. Insurance costs paid by LVMH group companies and Christian Dior Couture are less than 0.20% of their consolidated annual 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 property damage and business interruption, transportation, credit, third party liability and product recall.

3.2.1. 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. For the LVMH group, the coverage limit of this program is 1.7 billion euros per claim, an amount determined following an updated analysis conducted in 2011 of LVMH group's maximum possible losses. This limit amounts to 200 million euros per claim for Christian Dior Couture.

Coverage for "natural events" provided under the Group's international property insurance program has been raised since July 1, 2011 to 100 million euros per claim and 200 million euros per year for LVMH. For Christian Dior Couture, coverage amounts to 200 million euros per claim in France (15 million outside France). As a result of a Japanese earthquake risk modeling study performed in 2009, specific coverage in the amount of 150 million euros was taken out against this risk at the LVMH group. For Christian Dior Couture, specific coverage in the amount of 40 million euros was taken out in 2011. These limits are in line with the Group companies' risk exposures.

3.2.2. Transportation insurance

All Group operating entities are covered by an international cargo and transportation insurance contract. The coverage limit of this program (60 million euros for LVMH and 4 million euros for Christian Dior Couture) corresponds to the maximum possible single transport loss.

3.2.3. Third-party liability

The 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 LVMH's risks, given the insurance capacity and coverage available internationally.

Coverage levels are in line with those of companies with comparable business operations.

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.

3.2.4. Coverage for special risks

Insurance coverage for political risks, company officers' liability, fraud and malicious intent, trade credit risk, acts of terrorism, loss of or corruption of computer data, and environmental risks is obtained through specific worldwide or local policies.

3.3. FINANCIAL RISKS

3.3.1. Credit risks

Because of the nature of its activities, a significant portion of the Group's sales are not exposed to customer credit risk; sales are made directly to customers by Christian Dior Couture, 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 64% of total revenue in 2012.

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 level or earnings. The extent of insurance against customer credit risk is satisfactory, with a cover ratio of around 93% as of December 31, 2012.

3.3.2. Counterparty risk

The financial crisis over the last few years has had a considerable impact on the banking sector worldwide, necessitating heightened controls and a more dynamic approach to the management of counterparty risk to which the Group is exposed. Risk diversification 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 category.

Banking counterparty risk is monitored at all levels of the Group on a regular and comprehensive basis, a task facilitated by the centralization of market and liquidity risk management.

3.3.3. 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 or the Chinese yuan, among others) 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 risks 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 cash flow hedging for 2013 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 euros (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 through the use of 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.

3.3.4. Interest rate risk

The Group's exposure to interest rate risk may be assessed with respect to the amount of its consolidated net financial debt, which totaled approximately 7.8 billion euros as of December 31, 2012. After hedging, 45% of gross financial debt was subject to a fixed rate of interest and 55% 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 18.5 and 18.7 to the consolidated financial statements.

Since the Group's debt is denominated in various different currencies, the Group's exposure to fluctuations in interest rates underlying the main currency-denominated borrowings (euro, Swiss franc, Japanese yen and US dollar) varies accordingly.

This risk is managed using interest rate swaps and by purchasing options (protections against an increase in interest rate) designed to limit the adverse impact of unfavorable interest rate fluctuations.

3.3.5. Equity market risk

The Group's exposure to equity market risk relates mainly to its ownership interest in Christian Dior and LVMH as well as Christian Dior and LVMH treasury shares, which are held primarily in coverage of stock option plans and bonus share plans. Financière Agache treasury shares, as well as share purchase options, are considered as equity instruments under IFRS, and as such have no impact on the consolidated income statement.

The Group is a shareholder in Hermès International SCA, with a 22.6% stake as of December 31, 2012. Other quoted securities may be held by some of the funds in which the Group has invested, or directly within 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 index-linked to the change in the LVMH share price. Derivatives may also be used to create a synthetic long position.

3.3.6. 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, in order 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 the 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.

3.3.7. Liquidity risk

The Group's local liquidity risks are generally not significant. Its overall exposure to liquidity risk can be assessed either (a) with regard to outstanding amounts in respect of its commercial paper program, 1.9 billion euros, or (b) with regard to the amount of the short term portion of its net financial debt before hedging, net of cash and cash equivalents, 3.2 billion euros. Should any of these borrowing facilities not be renewed, the Group has access to undrawn confirmed credit lines totaling 6.4 billion euros.

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.

In connection with certain long term credit lines, the Group has undertaken to comply with certain financial covenants (mainly based on a ratio of financial debt to assets). The current level of these ratios ensures that the Group has substantial financial flexibility with regard to these commitments.

In addition, as is customary, the applicable margin on drawdowns of certain LVMH long term credit lines depends on its rating by Standard & Poor's. As of December 31, 2012, no drawdown had been performed under these schemes. Furthermore, should these clauses be triggered, this would not have a significant impact on the Group's cash flow.

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.

3.3.8. 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 financial control.

The backbone of this organization is integrated information systems that allow hedging transactions to be monitored quickly.

Hedging strategies are presented to the Group's various Audit Committees.

Hedging decisions are taken by means of a clearly established process that includes regular presentations to the management bodies concerned and detailed documentation.

4. Financial policy

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

- improving the Group's financial structure and its flexibility, as evidenced by the key indicators listed below:
  - substantial growth in equity:

    equity before appropriation of profit rose 9% to 27.1 billion euros as of December 31, 2012, compared to 24.8 billion euros a year earlier. This improvement reflects the strong earnings achieved by companies across the Group, distributed only partially;
  - lower net debt:

    net debt came to 7.8 billion euros at year-end 2012, as against 8.6 billion euros a year earlier. This reduction was made possible as a result of cash flows from operating activities and operating investments (free cash flow), which remained high in 2012, thanks in particular to the improvement in operating profit and the stability of operating investments compared to 2011;
  - the Group's access to liquidity, in particular through its commercial paper programs, appreciated by investors;
  - maintaining a substantial level of cash and cash equivalents with a diversified range of top-tier banking counterparties;
  - the Group's financial flexibility, facilitated by a significant reserve of undrawn confirmed credit lines totaling 6.4 billion euros, including a 2 billion euro syndicated loan with a remaining term to maturity of 5 years, which offers the option to extend this maturity by an additional year. A bond issue in the amount of 275 million euros maturing in 2017 was also carried out during the year;
- 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 by hedging its assets.

  The Group maintained its debt position at a level allowing it to benefit from the significant decline in interest rates. With regard to foreign exchange risks, the Group continued to hedge the risks of exporting companies using call options or collars to limit the negative impact of currency depreciation while retaining a gain in the event of currency appreciation. This strategy was successful in an extremely volatile year. It enabled the Group to obtain a rate after hedging for the US dollar lower than the average exchange rate for the year, which was also lower than the rate after hedging obtained in 2011. The rate after hedging obtained for the Japanese yen was slightly higher than the average exchange rate for the year, but still lower than the rate obtained after hedging in 2011;
- greater concentration of Group liquidity owing to the ongoing roll-out of cash pooling practices worldwide, ensuring the fluidity of cash flows across the Group and optimal management of surplus cash. As a rule, the Group applies a diversified short and long term investment policy;
- the slight drop in the cost of net financial debt to 211 million euros in 2012, from 230 million euros in 2011, chiefly attributable to the decline in interest rates during the fiscal year;
- pursuing a dynamic policy of dividend payouts to shareholders, to enable them to benefit from the very strong performance over the year: proposal of a gross dividend payment of 115 euros per share for 2012. As an interim dividend for 2012 of 115 euros per share was paid as of December 2012, distributions to Financière Agache shareholders amounted to a total of 365 million euros, corresponding to the aggregate amount of dividends for 2012, after the effect of treasury shares. Dividends and interim dividends authorized for payment to minority interests of the consolidated subsidiaries amounted to 1.4 billion euros.

4.1. COMMENTS ON THE CONSOLIDATED CASH FLOW STATEMENT

The consolidated cash flow statement, presented in the consolidated financial statements, provides detail of the main financial flows in 2012.

(EUR millions)	2012	2011	Change
Cash from operations before changes in working capital	**7,294**	**6,256**	**1,038**
Cost of net financial debt: interest paid	(228)	(222)	(6)
Income taxes paid	(2,042)	(1,568)	(474)
Net cash from operating activities before changes in working capital	**5,024**	**4,466**	**558**
Total change in working capital	(791)	(552)	(239)
Operating investments	(1,851)	(1,816)	(35)
Free cash flow	**2,382**	**2,098**	**284**
Financial investments	**(177)**	**(1,275)**	**1,098**
Transactions related to equity	**(1,758)**	**(2,698)**	**940**
Change in cash before financing activity	**447**	**(1,875)**	**2,322**

Cash from operations before changes in working capital totaled 7,294 million euros, compared to 6,256 million euros a year earlier, representing an increase of 17%.

Net cash from operating activities before changes in working capital (i.e. after interest and income taxes paid) amounted to 5,024 million euros, up 12% compared to fiscal year 2011.

Interest paid, which totaled 228 million euros, was stable compared to the 222 million euros paid in 2011. Net financial debt decreased at the end of the period under review. Lower interest rates on borrowings and better returns on available cash offset the increase in interest expenses related to the higher average amount of debt outstanding compared with 2011.

Income taxes paid came to 2,042 million euros, a significant increase from 1,568 million paid in the prior year, due to an increase in taxable profit, and a rise in the effective rate of income taxes.

Working capital requirements increased by 791 million euros, primarily as a result of a rise in inventories, which generated a cash requirement of 868 million euros. This increase in inventories, driven by growth in volume of the Group's business activities and number of stores, was essentially related to Selective Retailing (DFS in particular, which won new airport concessions), Fashion and Leather Goods, Christian Dior Couture and Wines and Spirits, especially as a result of purchases of eaux-de-vie. The remaining change in working capital requirements amounted to 77 million euros, since cash requirements related to higher commercial and operational receivables were financed by an increase in trade accounts payable.

Operating investments net of disposals resulted in a net cash outflow of 1,851 million euros in 2012, compared to 1,816 million euros a year earlier. They consisted mainly of investments by Louis Vuitton, Sephora, DFS and Christian Dior Couture in their retail networks, investments by the Group's champagne brands in their production facilities, and investments by Parfums Christian Dior in new display counters, together with real estate investments for commercial or rental purposes.

Financial investments and purchases of consolidated investments accounted for a 177 million euro outflow in 2012, of which 90 million euros related to purchases of consolidated investments.

Transactions relating to equity generated an outflow of 1,758 million euros. This amount represents 365 million euros in dividends paid over the course of the fiscal year by Financière Agache and 1,289 million euros in dividends paid to minority interests of the consolidated subsidiaries. These were essentially the minority interests of Christian Dior SA, LVMH SA, Diageo as a result of its 34% stake in Moët Hennessy and the minority interests of DFS. In addition, the impact of acquisitions of minority interests totaled 207 million euros, corresponding mainly to the acquisition of the 20% stake not yet owned in the share capital of Benefit.

The net cash inflow after all operating, investment, and equity-related activities thus amounted to 447 million euros, and was used to reduce the level of debt. The cash balance at the end of the fiscal year rose by 69 million euros compared to December 31, 2011 and amounted to 2,307 million euros.

4.2. COMMENTS ON THE CONSOLIDATED BALANCE SHEET

(EUR billions)	2012	2011	Change
Tangible and intangible assets	31.7	30.0	1.7
Other non-current assets	8.7	9.1	(0.4)
Non-current assets	**40.4**	**39.1**	**1.3**
Inventories	8.4	7.8	0.6
Other current assets	8.6	7.3	1.3
Current assets	**17.0**	**15.1**	**1.9**
ASSETS	**57.4**	**54.2**	**3.2**

(EUR billions)	2012	2011	Change
Equity	27.1	24.8	2.3
Non-current liabilities	16.8	17.6	(0.8)
Equity and non-current liabilities	**43.9**	**42.4**	**1.5**
Short term borrowings	5.8	5.2	0.6
Other current liabilities	7.7	6.6	1.1
Current liabilities	**13.5**	**11.8**	**1.7**
LIABILITIES AND EQUITY	**57.4**	**54.2**	**3.2**

The consolidated balance sheet of the Financière Agache group totaled 57.4 billion euros at year-end 2012, representing a 6% increase from year-end 2011.

Non-current assets rose by 1.3 billion euros and represented 70% of total assets, compared with 72% at year-end 2011.

Tangible and intangible fixed assets grew by 1.7 billion euros. This amount includes 0.9 billion euros in respect of investments for the year, net of amortization, depreciation and impairment charges as well as disposals. It also includes the revaluation of purchase commitments for minority interests, reflecting in particular the strong performance of the business activities to which those commitments correspond, thereby leading to a 0.8 billion euro increase in the amount of goodwill.

Other non-current assets declined by 0.4 billion euros. This decline was mainly due to the reclassification of 1 billion euros into other current assets, offset by an increase in deferred tax assets of 0.2 billion euros, the increase in investments in associates of 0.2 billion euros, and exchange rate fluctuations of 0.2 billion euros. The value of the investment in Hermès International changed little; the impact of acquisitions of shares on the market during the first six months of the year was offset by a reduction in the market value of the investment, resulting from the slight dip in the share price of Hermès International in 2012. At year-end 2012, the 22.6% stake in Hermès amounted to 5.4 billion euros, the same as at year-end 2011.

Inventories increased by 0.6 billion euros, reflecting the growth of the Group's business activities.

Other current assets amounted to 8.6 billion euros. They grew by 1.3 billion euros, mainly due to the reclassification of 1 billion euros in non-current assets and the change in value of foreign exchange risk hedging instruments.

Non-current liabilities decreased from 17.6 billion euros at year-end 2011 to 16.8 billion euros at year-end 2012, recording a decrease of 0.8 billion euros. This change was mainly the result of the reduction in long term financial debt of 1.4 billion euros, partially offset by the growth in commitments to purchase minority interests at 0.8 billion euros.

Current liabilities rose by 1.7 billion euros compared to year-end 2011. This increase essentially resulted from the rise in long term borrowings of 0.6 billion euros, the increase in trade accounts payable of 0.2 billion euros and higher other current assets, which rose by 0.8 billion euros mainly due to the change in the market value of hedging instruments for foreign exchange risk.

(EUR billions)	2012	2011	Change
Long term borrowings	5.0	6.4	(1.4)
Short term borrowings and derivatives	5.7	5.1	0.6
Gross borrowings after derivatives	**10.7**	**11.5**	**(0.8)**
Cash and cash equivalents, other financial assets and current available for sale financial assets	(2.9)	(2.9)	0.0
Net financial debt	**7.8**	**8.6**	**(0.8)**
Equity	**27.1**	**24.8**	**2.3**
Net financial debt/Total equity ratio	**28.6%**	**34.8%**	**(6.2)**

The ratio of net financial debt to equity fell by 6.2 points to 28.6% as of December 31, 2012. This improvement was the result of the 0.8 billion euro reduction in net financial debt, accentuated by the 2.3 billion euro increase in equity.

Total equity amounted to 27.1 billion euros at year-end 2012, representing an increase of 9.5% compared with year-end 2011. This 2.3 billion euro growth is mainly attributable to the net profit for the fiscal year of 3.9 billion euros, of which 1.7 billion euros was distributed.

As of December 31, 2012, total equity represented 47% of the balance sheet total, a slight increase compared to 46% recorded at year-end 2011.

Gross borrowings after derivatives totaled 10.7 billion euros at year-end 2012, representing a 0.8 billion euro decrease compared to year-end 2011.

In June, LVMH issued five-year bonds in a total nominal amount of 850 million US dollars (equivalent to 681 million euros as of the issue date), and issued or subscribed to 0.3 billion euros in other borrowings. Conversely, repayments of borrowings amounted to 1.5 billion euros, including the 2005 bond (supplemented in 2008) in the amount of 0.8 billion euros, as well as miscellaneous bank borrowings of 0.2 billion euros.

In October, Financière Agache completed a bond issue reserved for institutional investors in the amount of 0.3 billion euros falling due in 2017 and repaid 0.8 billion euros in bank and bond borrowings.

Commercial paper outstanding decreased by 0.2 billion euros in 2012.

Cash and cash equivalents and current available for sale financial assets totaled 2.9 billion euros at the end of the fiscal year.

As of year-end 2012, the Group's undrawn confirmed credit lines amounted to 6.4 billion euros, substantially exceeding the outstanding portion of its commercial paper programs, which came to 1.9 billion euros as of December 31, 2012.

5. Results of Financière Agache

Financière Agache maintained its direct and indirect ownership interests in its subsidiaries Christian Dior and LVMH.

In 2012, the total amount of dividends received from subsidiaries and equity investments was 431 million euros.

Net financial income was 413.5 million euros.

Net profit was 406.3 million euros.

Management proposes that the Shareholders' Meeting allocate and appropriate the distributable profit for the fiscal year ended December 31, 2012 as follows:

Amount available for distribution *(EUR)*	
Net profit	406,282,258.11
Retained earnings	2,461,721,562.31
DISTRIBUTABLE EARNINGS	**2,868,003,820.42**
Proposed appropriation	
Gross dividend distribution of 115 euros per share	364,935,480.00
Retained earnings	2,503,068,340.42
TOTAL	**2,868,003,820.42**

Should this appropriation be approved, the gross dividend would be 115 euros per share. As an interim dividend of 115 euros per share was paid on December 18, 2012, there is no further balance due in respect of the 2012 fiscal year.

Under existing applicable tax law as of December 31, 2012, with respect to this dividend distribution, individuals whose tax residence is in France will be entitled to the 40% tax deduction provided for in Article 158 of the French Tax Code.

Finally, should the Company hold any treasury shares at the time of the payment of this balance, the amount corresponding to the dividend not paid on these shares will be allocated to retained earnings.

Distribution of dividends

As required by law, we remind you of the gross dividends per share paid out in respect of the past three fiscal years:

(EUR)	Gross dividend [(a)]	Tax deduction [(b)]
2011	125.00	50.00
2010	25.00	10.00
2009	20.00	8.00

(a) Excluding the impact of tax regulations applicable to the beneficiaries.
(b) For individuals with tax residence in France.

Information relating to payment terms

As of December 31, 2012, trade accounts payable amounted to 326 thousand euros (332 thousand euros as of December 31, 2011). They comprise accrued expenses in the amount of 250 thousand euros (255 thousand euros as of December 31, 2011) and outstanding invoices in the amount of 75 thousand euros (78 thousand euros as of December 31, 2011).

6. Information regarding the Company's share capital

As of December 31, 2012, the share capital was 50,773,632 euros, consisting of 3,173,352 shares with a par value of 16 euros each. As of this same date, 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 will be 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 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.

7. Administrative matters

7.1. LIST OF POSITIONS AND OFFICES HELD BY DIRECTORS

The list of all positions and offices held by each Director is provided in paragraph 9 below.

7.2. MEMBERSHIP OF THE BOARD OF DIRECTORS

It is proposed that the Shareholders' Meeting:

- ratify the appointment by the Board of Directors of Mr. Florian Ollivier as Director effective as of November 29, 2012;
- renew the appointment of Montaigne Finance SAS as Director for the period specified in the Bylaws of three years.

8. Financial authorizations

8.1. STATUS OF CURRENT DELEGATIONS AND AUTHORIZATIONS

8.1.1. 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	Use as of December 31, 2012
Through incorporation of reserves (L. 225-130)	June 22, 2011 (7th resolution)	August 21, 2013 (26 months)	32 million euros [(a)] 2,000,000 shares	Not applicable	None
With preferential subscription rights: ordinary shares and investment securities giving access to the share capital	June 22, 2011 (8th resolution)	August 21, 2013 (26 months)	32 million euros [(a)] 2,000,000 shares	Free	None

(a) Maximum nominal amount. The nominal amount of any capital increase decided in application of other delegations of authority would be offset against this amount.

8.2. AUTHORIZATIONS PROPOSED TO THE SHAREHOLDERS' MEETING

8.2.1. Authorizations to increase the share capital

(L. 225-129, L. 225-129-2 and L. 228-92 of the French Commercial Code)

Type	Resolution	Duration	Amount authorized	Issue price determination method
Through incorporation of reserves (L. 225-130)	7th	26 months	32 million euros [(a)] 2,000,000 shares	Not applicable
With preferential subscription rights: ordinary shares and investment securities giving access to the share capital	8th	26 months	32 million euros [(a)] 2,000,000 shares	Free

(a) Maximum nominal amount. The nominal amount of any capital increase decided in application of other delegations of authority would be offset against this amount (10th resolution).

8.2.2. Employee share ownership

Type	Resolution	Duration	Amount authorized	Issue price determination method
Capital increase reserved for employees enrolled in a corporate savings plan (L. 225-129-6)	9th	26 months	1% of the share capital [(a)] 31,733 shares	In accordance with regulations in force

(a) Subject to the overall ceiling of 32 million euros referred to in (a) above, against which this amount would be offset.

9. List of positions or offices exercised in all companies by company officers

Pursuant to Article L. 225-102-1 of the French Commercial Code, the following are all offices and positions exercised in all companies by each company officer of the Company.

9.1. TERMS OF CURRENT DIRECTORS TO BE RENEWED

MONTAIGNE FINANCE SAS

Financière Agache SA	Director
GA Placements SA	Director

Mr. Pierre DE ANDREA, Permanent representative

Agache Développement SA	Permanent representative of Financière Agache SA, Director
CD Investissements SAS	Chairman
Delcia SA	Director
Escorial Development SA	Director
Europimmo SNC	Managing Director
Financière Agache SA	Permanent representative of Montaigne Finance SAS, Director
Fimeris SA	Director
Foncière du Nord SCI	Managing Director
GA Placements SA	Permanent representative of Groupe Arnault SAS, Director
Goujon Holding SAS	Chairman
Goujon Participations SAS	Chairman
Métropole 1850 SNC	Managing Director
Montaigne Finance SAS	Member of the Supervisory Committee
Sadifa SA	Chairman and Chief Executive Officer
Sanderson International SA	Director
Sophiz SA	Director
Westley International SA	Director

9.2. CURRENTLY SERVING DIRECTORS

Mr. Florian OLLIVIER, Chairman and Chief Executive Officer

Agache Développement SA	Chairman and Chief Executive Officer
Anciens Etablissements Somborn-Lang-Ferry et Cie SA	Director
Europatweb SA	Chairman and Chief Executive Officer
Europatweb Placements SAS	Legal representative of Europatweb, Chairman
Financière Agache SA	Chairman and Chief Executive Officer
Financière Agache Private Equity SA	Permanent representative of Financière Agache, Director
Financière Jean Goujon SAS	Chairman
GA Placements SA	Permanent representative of Invry, Director
Grandville SA	Director
Groupe Arnault SAS	Managing Director
Invry SAS	Chairman
JGPG SAS	Chairman

Kléber Participations SARL	Managing Director
Le Jardin d'Acclimatation SA	Director
Montaigne Finance SAS	Chairman
Montaigne Services SNC	Managing Director
Raspail Investissements SAS	Chairman
Sémyrhamis SAS	Member of the Supervisory Committee
Sevrilux SNC	Legal representative of Financière Agache, Managing Director

Mr. Denis DALIBOT

Agache Développement SA	Director
Aurea Finance SA	Chairman
Belle Jardinière SA	Director
Cervinia SA	Director
Christian Dior SA	Director
Christian Dior Couture SA	Director
Courtinvest SA	Director
Europatweb SA	Director
Financière Agache SA	Director
Financière Agache Private Equity SA	Director
Financière Jean Goujon SAS	Member of the Supervisory Committee
Franck & Fils SA	Permanent representative of Le Bon Marché – Maison Aristide Boucicaut, Director
Giminvest SA	Director
GMPI SA	Director
Groupe Arnault SAS	Member of the Management Committee
Le Jardin d'Acclimatation SA	Permanent representative of Ufipar, Director
Le Peigné Invest SA	Director
Le Peigné SA	Director
Sémyrhamis SAS	Member of the Supervisory Committee

Lord POWELL of BAYSWATER

Capital Generation Partners	Chairman of the Board of Directors
Caterpillar Inc.	Director
Financière Agache SA	Director
Hong Kong Land Holdings	Director
LVMH Moët Hennessy - Louis Vuitton SA	Director
LVMH Services Limited	Chairman of the Board of Directors
Mandarin Oriental International Holdings	Director
Matheson & Co Ltd	Director
Northern Trust Global Services	Director
Schindler Holding	Director
Textron Corporation	Director

GA PLACEMENTS SA

Financière Agache SA	Director

Mr. Pierre DEHEN, Permanent representative

Ashbury Finance SA	Chairman and Chief Executive Officer
Eley Finance SA	Director
Financière Agache SA	Permanent representative of GA Placements SA, Director
GA Placements SA	Chairman and Chief Executive Officer
Union +	Permanent representative of LVMH Moët Hennessy - Louis Vuitton SA, Director

GROUPE ARNAULT SAS

Europatweb SA	Director
Financière Agache SA	Director
GA Placements SA	Director

Mr. Nicolas BAZIRE, Permanent representative and Group Managing Director

Agache Développement SA	Director
Atos SA	Director
Carrefour SA	Director
Europatweb SA	Director
Financière Agache SA	Group Managing Director and Permanent representative of Groupe Arnault SAS, Director
Financière Agache Private Equity SA	Director
GA Placements SA	Permanent representative of Montaigne Finance, Director
Groupe Arnault SAS	Managing Director
Groupe Les Echos SA	Director
Les chevaux de Malmain SARL	Managing Director
Les Echos SAS	Vice-Chairman of the Supervisory Board
LVMH Moët Hennessy - Louis Vuitton SA	Director
Louis Vuitton Malletier SA	Permanent representative of Ufipar, Director
LV Group SA	Director
Montaigne Finance SAS	Member of the Supervisory Committee
Rothschild & Cie Banque SCS	Member of the Supervisory Board
Sémyrhamis SAS	Member of the Supervisory Committee
Suez Environnement Company SA	Director
Louis Vuitton pour la Création, Fondation d'Entreprise	Director

10. Exceptional events and litigation

As part of its day-to-day management, the Group is party to various legal proceedings concerning trademark rights, the protection of intellectual property rights, the protection of selective retail 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 net worth being materially impacted in the event of an unfavorable outcome.

Following the decision delivered in March 2006 by the Conseil de la concurrence (the French antitrust authority) regarding the luxury perfume sector in France, and the judgment rendered on June 26, 2007 by the Paris Court of Appeal, the Group companies concerned took their case to the Cour de cassation, the highest court in France. In July 2008, the Cour de cassation overturned the decision of the Paris Court of Appeal and referred the case to the same jurisdiction, formed differently. In November 2009, the Court of Appeal set aside the judgment of the Conseil de la concurrence due to the excessive length of the proceedings. In November 2010, the Cour de cassation overturned the decision of the Court of Appeal and referred the matter back to the same jurisdiction, formed differently. On January 26, 2012, the Paris Court of Appeal, while reaffirming the decision handed down in 2006 by the Conseil de la concurrence against France's leading manufacturers and distributors of luxury perfumes and cosmetics relating to events dating back to the period 1997–2000, reduced the total amount of fines imposed on the Group's companies active in this sector to 13 million euros. An appeal was filed with the Cour de cassation in response to this ruling by the Paris Court of Appeal.

In 2006, Louis Vuitton Malletier, Christian Dior Couture and the French companies of the Perfumes and Cosmetics business group filed lawsuits against eBay in the Paris Commercial Court. Louis Vuitton Malletier and Christian Dior Couture demanded compensation for losses caused by eBay's participation in the commercialization of counterfeit products and its refusal to implement appropriate procedures to prevent the sale of such goods on its site. The Perfumes and Cosmetics brands sued eBay for undermining their selective retail networks. In a decision delivered on June 30, 2008, the Paris Commercial Court ruled in favor of the demands formulated, ordering eBay to pay 19.3 million euros to Louis Vuitton Malletier, 16.4 million euros to Christian Dior Couture and 3.2 million euros to the Group's Perfumes and Cosmetics brands. The court also barred eBay from running listings for perfumes and cosmetics under the Dior, Guerlain, Givenchy and Kenzo brands. eBay filed a petition with the Paris Court of Appeal. On July 11, 2008, the President of the Paris Court of Appeal denied eBay's petition to stay the provisional execution order delivered by the Paris Commercial Court. In September 2010, the Paris Court of Appeal confirmed the ruling against eBay handed down in 2008, classifying this company's business as that of a broker and not merely an Internet host. Asserting that it did not have jurisdiction to evaluate the extent of losses caused by some of eBay's sites outside France, the Court reduced the amount of punitive damages to 2.2 million euros for Louis Vuitton Malletier, 2.7 million euros for Christian Dior Couture and 0.7 million euros for the Group's Perfumes and Cosmetics brands, as the initial amount had been determined on the basis of eBay's worldwide operations. In response to the appeal filed by eBay, on May 3, 2012 the Cour de cassation confirmed the analysis carried out by the Paris Court of Appeal, which had held that eBay's activity was not merely that of a hosting service provider, but that it also acted as a broker. However, the Cour de cassation reversed the Paris Court of Appeal's decision with regard to its jurisdiction for activity conducted on the eBay Inc. and referred the case back for retrial by the Paris Court of Appeal.

Following the announcement by LVMH in October 2010 of its acquisition of a stake in the share capital of Hermès International, the Autorité des marchés financiers (the French financial markets regulation authority) decided to launch an investigation into the market and financial disclosures relating to Hermès and LVMH shares. On August 13, 2012, the AMF served LVMH with a statement of objections for alleged infringements of financial and public disclosure requirements, a copy of which has been forwarded to the AMF's Enforcement Committee, which will meet on May 31, 2013.

In January 2011, the Paris Administrative Court canceled the order issued in 2007 that had granted Fondation Louis Vuitton a building permit for the construction of a modern and contemporary art museum in the Bois de Boulogne. The Fondation is financed by Group contributions as part of the Group's cultural sponsorship activities. The Fondation and the City of Paris have appealed the ruling of the Paris Administrative Court. In view of the nature of this project as beneficial to society and in keeping with the public interest, the French Parliament passed a resolution validating the canceled building permits on the grounds advanced by the Administrative Court. The building permit granted in 2007 was approved by the Paris Administrative Court of Appeal on June 18, 2012.

In the first half of 2011, Christian Dior Couture SA dismissed Mr. John Galliano and terminated the consulting agreement it had entered into with Cheyenne Freedom SARL, a company owned by Mr. Galliano. John Galliano SA, a subsidiary of Christian Dior Couture, also terminated Mr. Galliano's employment contract. Mr. Galliano brought legal proceedings against these two Group companies. In a judgment issued on March 26, 2013, the Paris Commercial Court dismissed all of the claims lodged by Cheyenne Freedom and ordered the latter to pay Christian Dior Couture the sums of 1 million euros for damage to the company's image, 150,000 euros for non-pecuniary damage, and 20,000 euros under Article 700 of the French Code of Civil Procedure. The judgment was issued with an order rendering it immediately enforceable and is subject to appeal.

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 financial position or profitability of the Company and/or the Group.

11. Subsequent events

No significant subsequent events occurred between December 31, 2012 and March 27, 2013, the date on which the financial statements were approved for publication by the Board of Directors.

12. Recent developments and prospects

Despite an uncertain economic environment in Europe, the Financière Agache group is well-equipped to continue its growth momentum across all business groups in 2013. The Group will maintain a strategy focused on developing its brands by continuing to build up its savoir-faire, as well as through strong innovation and expansion in fast growing markets.

Driven by the agility of its organization, the balance of its different businesses and geographic diversity, the Financière Agache group enters 2013 with confidence and has, once again, set an objective of increasing its global leadership position in luxury goods.

Consolidated financial statements

1. Consolidated income statement

(EUR millions, except for earnings per share)	*Notes*	2012	2011	2010
Revenue	*23/24*	**29,287**	**24,615**	**21,112**
Cost of sales		(10,238)	(8,367)	(7,448)
Gross margin		**19,049**	**16,248**	**13,664**
Marketing and selling expenses		(10,763)	(8,903)	(7,542)
General and administrative expenses		(2,272)	(2,031)	(1,795)
Profit from recurring operations	*23/24*	**6,014**	**5,314**	**4,327**
Other operating income and expenses	*25*	(180)	(84)	(134)
Operating profit		**5,834**	**5,230**	**4,193**
Cost of net financial debt		(211)	(230)	(241)
Other financial income and expense		141	(93)	756
Net financial income (expense)	*26*	**(70)**	**(323)**	**515**
Income taxes	*27*	(1,917)	(1,476)	(1,484)
Income (loss) from investments in associates	*7*	49	10	41
Net profit before minority interests		**3,896**	**3,441**	**3,265**
Minority interests	*17*	2,861	2,529	2,358
Net profit, Group share		**1,035**	**912**	**907**
Basic Group share of net earnings per share *(EUR)*	*28*	**326.53**	**287.72**	**286.14**
Diluted Group share of net earnings per share *(EUR)*	*28*	**323.69**	**285.51**	**284.57**

2. Consolidated statement of comprehensive gains and losses

(EUR millions)	**2012**	**2011**	**2010**
Net profit before minority interests	**3,896**	**3,441**	**3,265**
Translation adjustments	(99)	195	689
Tax impact	(18)	47	89
	(117)	**242**	**778**
Change in value of available for sale financial assets	136	1,621	501
Amounts transferred to income statement	(26)	(66)	35
Tax impact	(6)	(121)	(35)
	104	**1,434**	**501**
Change in value of hedges of future foreign currency cash flows	173	68	(16)
Amounts transferred to income statement	19	(165)	(25)
Tax impact	(50)	27	14
	142	**(70)**	**(27)**
Change in value of vineyard land	85	25	206
Tax impact	(28)	(11)	(71)
	57	**14**	**135**
Gains and losses recognized in equity	**186**	**1,620**	**1,387**
Comprehensive income	**4,082**	**5,061**	**4,652**
Minority interests	2,890	3,722	3,195
COMPREHENSIVE INCOME, GROUP SHARE	**1,192**	**1,339**	**1,457**

3. Consolidated balance sheet

Assets

(EUR millions)	*Notes*	2012	2011	2010
Brands and other intangible assets	*3*	13,813	13,786	11,391
Goodwill	*4*	8,708	7,857	5,905
Property, plant and equipment	*6*	9,164	8,317	7,010
Investments in associates	*7*	780	561	681
Non-current available for sale financial assets	*8*	6,321	6,278	4,149
Other non-current assets	*9*	637	1,525	1,704
Deferred tax	*27*	919	761	699
Non-current assets		**40,342**	**39,085**	**31,539**
Inventories and work in progress	*10*	8,407	7,798	6,254
Trade accounts receivable	*11*	2,036	1,945	1,629
Income taxes		217	132	105
Other current assets	*12*	3,745	2,613	2,548
Cash and cash equivalents	*14*	2,631	2,622	2,896
Current assets		**17,036**	**15,110**	**13,432**
TOTAL ASSETS		**57,378**	**54,195**	**44,971**

Liabilities and equity

(EUR millions)	*Notes*	2012	2011	2010
Share capital	*15.1*	51	51	51
Share premium account		442	442	442
Treasury shares and related derivatives	*15.2*	(7)	(12)	(16)
Cumulative translation adjustment	*15.4*	101	126	64
Revaluation reserves		1,380	1,201	836
Other reserves		4,499	3,952	3,256
Net profit, Group share		1,035	912	907
Equity, Group share		7,501	6,672	5,540
Minority interests	*17*	19,629	18,110	14,123
Total equity		**27,130**	**24,782**	**19,663**
Long term borrowings	*18*	5,014	6,449	6,062
Provisions	*19*	1,569	1,434	1,194
Deferred tax	*27*	4,727	4,673	4,097
Other non-current liabilities	*20*	5,477	5,014	4,587
Non-current liabilities		**16,787**	**17,570**	**15,940**
Short term borrowings	*18*	5,798	5,168	3,771
Trade accounts payable		3,196	3,012	2,348
Income taxes		466	460	451
Provisions	*19*	348	359	348
Other current liabilities	*21*	3,653	2,844	2,450
Current liabilities		**13,461**	**11,843**	**9,368**
TOTAL LIABILITIES AND EQUITY		**57,378**	**54,195**	**44,971**

4. Consolidated statement of changes in equity

						Revaluation reserves				Total equity		
(EUR millions)	Number of shares	Share capital	Share premium account	Treasury shares and related derivatives	Cumulative translation adjustment	Available for sale financial assets	Hedges of future foreign currency cash flows	Vineyard land	Net profit and other reserves	Group share	Minority interests	Total
Notes		*15.1*		*15.2*	*15.4*						*17*	
As of December 31, 2009	**3,173,352**	**51**	**442**	**(43)**	**(162)**	**308**	**10**	**194**	**3,308**	**4,108**	**11,691**	**15,799**
Gains and losses recognized in equity					226	296	(2)	30		550	837	1,387
Net profit									907	907	2,358	3,265
Comprehensive income					**226**	**296**	**(2)**	**30**	**907**	**1,457**	**3,195**	**4,652**
Stock option plan and similar expenses									19	19	34	53
(Acquisition)/disposal of treasury shares and related derivatives				27					(23)	4	151	155
Capital increase in subsidiaries									-	-	11	11
Interim and final dividends paid									(63)	(63)	(793)	(856)
Changes in control of consolidated entities									-	-	(3)	(3)
Acquisition and disposal of minority interests' shares									25	25	(44)	(19)
Purchase commitments for minority interests' shares									(10)	(10)	(119)	(129)
As of December 31, 2010	**3,173,352**	**51**	**442**	**(16)**	**64**	**604**	**8**	**224**	**4,163**	**5,540**	**14,123**	**19,663**
Gains and losses recognized in equity					61	421	(31)	4		455	1,165	1,620
Net profit									912	912	2,529	3,441
Comprehensive income					**61**	**421**	**(31)**	**4**	**912**	**1,367**	**3,694**	**5,061**
Stock option plan and similar expenses									22	22	39	61
(Acquisition)/disposal of treasury shares and related derivatives				4		(1)		(1)	14	16	96	112
Capital increase in subsidiaries									-	-	4	4
Interim and final dividends paid									(476)	(476)	(906)	(1,382)
Changes in control of consolidated entities					1	(18)	(1)	(8)	258	232	2,112	2,344
Acquisition and disposal of minority interests' shares										-	(785)	(785)
Purchase commitments for minority interests' shares									(29)	(29)	(267)	(296)
As of December 31, 2011	**3,173,352**	**51**	**442**	**(12)**	**126**	**1,006**	**(24)**	**219**	**4,864**	**6,672**	**18,110**	**24,782**
Gains and losses recognized in equity					(26)	134	36	13	-	157	29	186
Net profit									1,035	1,035	2,861	3,896
Comprehensive income					**(26)**	**134**	**36**	**13**	**1,035**	**1,192**	**2,890**	**4,082**
Stock option plan and similar expenses									21	21	40	61
(Acquisition)/disposal of treasury shares and related derivatives				5	1	(3)	-	(1)	(3)	(1)	120	119
Capital increase in subsidiaries									-	-	8	8
Interim and final dividends paid									(365)	(365)	(1,362)	(1,727)
Changes in control of consolidated entities									(3)	(3)	(19)	(22)
Acquisition and disposal of minority interests' shares									(12)	(12)	(53)	(65)
Purchase commitments for minority interests' shares									(3)	(3)	(105)	(108)
As of December 31, 2012	**3,173,352**	**51**	**442**	**(7)**	**101**	**1,137**	**12**	**231**	**5,534**	**7,501**	**19,629**	**27,130**

5. Consolidated cash flow statement

(EUR millions)	*Notes*	2012	2011	2010
I – OPERATING ACTIVITIES AND OPERATING INVESTMENTS				
Operating profit		5,834	5,230	4,193
Net increase in depreciation, amortization and provisions		1,370	1,030	806
Other computed expenses		(56)	(40)	(126)
Dividends received		199	69	57
Other adjustments		(53)	(33)	(2)
Cash from operations before changes in working capital		**7,294**	**6,256**	**4,928**
Cost of net financial debt: interest paid		(228)	(222)	(227)
Income taxes paid		(2,042)	(1,568)	(908)
Net cash from operating activities before changes in working capital		**5,024**	**4,466**	**3,793**
Total change in working capital	*14.1*	**(791)**	**(552)**	**270**
Net cash from operating activities		**4,233**	**3,914**	**4,063**
Operating investments	*14.2*	**(1,851)**	**(1,816)**	**(1,072)**
Net cash from operating activities and operating investments (free cash flow)		**2,382**	**2,098**	**2,991**
II – FINANCIAL INVESTMENTS				
Purchase of non-current available for sale financial assets		(148)	(563)	(1,790)
Proceeds from sale of non-current available for sale financial assets	*8*	61	60	156
Impact of purchase and sale of consolidated investments	*2.4*	(90)	(772) [(a)]	151
Net cash from (used in) financial investments		**(177)**	**(1,275)**	**(1,483)**
III – TRANSACTIONS RELATING TO EQUITY				
Capital increases of subsidiaries subscribed by minority interests		103	98 [(a)]	121
Interim and final dividends paid by Financière Agache	*15.3*	(365)	(475)	(63)
Interim and final dividends paid to minority interests in consolidated subsidiaries		(1,289)	(908)	(794)
Purchase and proceeds from sale of minority interests	*2.4*	(207)	(1,413)	(185)
Net cash from (used in) transactions relating to equity		**(1,758)**	**(2,698)**	**(921)**
IV – FINANCING ACTIVITIES				
Proceeds from borrowings		1,638	3,169	1,181
Repayment of borrowings		(2,421)	(1,825)	(2,076)
Non-Group financial current accounts		501	203	97
Purchase and proceeds from sale of current available for sale financial assets		(64)	33	(41)
Net cash from (used in) financing activities		**(346)**	**1,580**	**(839)**
V – EFFECT OF EXCHANGE RATE CHANGES		**(32)**	**55**	**170**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (I+II+III+IV+V)		**69**	**(240)**	**(82)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	*14*	**2,238**	**2,478**	**2,560**
CASH AND CASH EQUIVALENTS AT END OF PERIOD	*14*	**2,307**	**2,238**	**2,478**
Transactions included in the table above, generating no change in cash: - acquisition of assets by means of finance leases		5	3	6

(a) Not including the impact of the amount attributable to the acquisition of Bulgari remunerated by the reserved capital increase of LVMH SA as of June 30, 2011, which did not generate any cash flows.

Notes to the consolidated financial statements

6. Notes to the consolidated financial statements

NOTE 1 – ACCOUNTING POLICIES

1.1. General framework and environment

The consolidated financial statements for the year ended December 31, 2012 were established in accordance with international accounting standards and interpretations (IAS/IFRS) adopted by the European Union and applicable on December 31, 2012.

These standards and interpretations have been applied consistently to the fiscal years presented. The 2012 consolidated financial statements were approved for publication by the Board of Directors on March 27, 2013.

1.2. Changes in 2012 to the accounting framework applicable to the Group

Standards, amendments and interpretations for which application is mandatory in 2012

The amendment to IFRS 7 on required disclosures in the event of a change in valuation method of financial assets, applicable as of January 1, 2012, did not have a significant impact on the Group's consolidated financial statements.

Standards, amendments and interpretations for which application is mandatory after 2012

The following standards, amendments and interpretations applicable to the Group, whose mandatory application date is January 1, 2013 or 2014, relate to:

- amendment to IAS 1 on the presentation of gains and losses recognized in equity;
- IFRS 13, which defines the measurement principles of fair value and related disclosures, in case fair value applies. The application of this text will not have a significant impact on the Group's consolidated financial statements, since the accounting policies applied by the Group comply overall with the IFRS 13 standard;
- IFRS 10, IFRS 11 and IFRS 12 on consolidation, redefining the concept of the control of entities, eliminating the possibility to use proportional consolidation to consolidate jointly controlled entities which will be accounted for uniquely using the equity method, and introducing additional disclosure requirements in the notes to the consolidated financial statements.

The application of these standards should not have a material impact on the Group's consolidated financial statements. Specifically, distribution subsidiaries jointly owned with the Diageo group will not be impacted. See Notes 1.5 and 1.23.

- amendments to IAS 19 on employee benefit commitments which require full and immediate recognition of the effect of actuarial differences taken directly to equity and the calculation of the expected return on plan assets on the basis of the discount rate used to value the underlying obligation rather than on the basis of market expectations for returns.

The Group applies the partial recognition in the income statement for actuarial gains and losses (see Note 1.21). In light of the change of the standards, the Group will retroactively recognize an additional provision in the amount of 84 million euros as well as the associated deferred tax assets in 2013. The provision, which corresponds to the balance of actuarial gains and losses not yet recognized as of January 1, 2011, the date of the transition to IAS 19R, will be recognized as an adjustment to equity. The impact on the income statement in subsequent years will not be significant.

Other changes in standards and interpretations

The Group has reviewed the draft interpretation published by IFRIC in May 2012, which envisages a revised accounting treatment for changes in purchase commitments for minority interests' shares. See Note 1.10 for a description of the accounting method used for these commitments as of December 31, 2012.

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 are listed below:

- 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 were applied retrospectively as of this date;
- measurement of property, plant and equipment and intangible assets: the option to measure these assets at fair value at the date of transition was not applied with the exception of the entire real estate holdings of Christian Dior Couture, La Belle Jardinière and Le Bon Marché;
- employee benefits: actuarial gains and losses previously deferred under French GAAP at the date of transition were recognized;
- foreign currency translation of the financial statements of subsidiaries outside the euro zone: 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. Use of estimates

For the purpose of preparing the consolidated financial statements, 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, purchase commitments for minority interests and of the determination of the amount of provisions for contingencies and losses or for impairment of inventories and, if applicable, deferred tax assets. Such hypotheses, estimates or other forms of judgment which are undertaken on the basis of the information available, or situations prevalent at the date of preparation of the accounts, may prove different from the subsequent actual events.

1.5. 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 are consolidated using the equity method.

For distribution subsidiaries operating in accordance with the contractual distribution arrangements with the Diageo group, only the portion of assets and liabilities and results of operations relating to the Group's activities is included in the consolidated financial statements (see Note 1.23).

Companies where the Group has significant influence but no controlling interest are accounted for using the equity method.

1.6. Foreign currency translation of the financial statements of entities outside the euro zone

The consolidated financial statements are stated in euros; the financial statements of entities stated 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".

1.7. 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 in the case of commercial transactions;
- within net financial income/expense in the case of financial transactions.

Foreign exchange gains and losses arising from the translation or elimination of inter-company 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 inter-company 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 which are designated as hedges of commercial transactions denominated in a currency other than the functional currency of the entity are recognized in the balance sheet at their market value at the fiscal year-end and any change in the market value of such derivatives is recognized:

- within cost of sales for the effective portion of hedges of receivables and payables recognized in the balance sheet at the end of the period;
- within equity (as "Revaluation reserves") for the effective portion of hedges of future cash flows (this part is transferred to cost of sales at the time of recognition of the hedged assets and liabilities);
- within net financial income/expense for the ineffective portion of hedges; changes in the value of discount and premium associated with forward contracts, as well as the time value component of options, are systematically considered as ineffective portions.

When derivatives are designated as hedges of subsidiaries' equity outside the euro zone (net investment hedge), any change in fair value of the derivatives is recognized within equity under "Cumulative translation adjustment" for the effective portion and within net financial income/expense for the ineffective portion.

Market value changes of derivatives not designated as hedges are recorded within net financial income/expense.

See also Note 1.19 regarding the definition of the concepts of effective and ineffective portions.

1.8. Brands, trade names and other intangible assets

Only acquired brands and trade names that are well known and individually identifiable are recorded as assets at their values calculated on their dates of acquisition.

Brands and goodwill are chiefly valued using the method of the forecast discounted cash flows, or of comparable transactions (i.e. using the revenue and net profit coefficients employed for recent transactions involving similar brands), or of stock market multiples observed for related businesses. Other complementary methods may also be employed: the 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 between 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 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 positioning in its market expressed in terms of volume of activity, international presence and notoriety;
- 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 15 to 40 years, depending on their estimated period of utilization.

Any impairment expense of brands and trade names and, in some cases, amortization expense, are recognized within "Other operating income and expenses".

Impairment tests are carried out for brands, trade names and other intangible assets using the methodology described in Note 1.12.

Research expenditure is not capitalized. New product development expenditure is not capitalized unless the final decision to launch the product has been taken.

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 period;
- development expenditure: three years at most;
- software: one to five years.

1.9. Changes in the percentage of interest 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 fair value as of the date when control is obtained and the difference between the cost of taking control and the Group's share of the fair 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".

As from January 1, 2010, for transactions occurring after that date, in accordance with IAS 27 (Revised), 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 1.12. Any impairment expense recognized is included within "Other operating income and expenses".

1.10. Purchase commitments for minority interests

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 fiscal year-end appears in "Other non-current liabilities";
- the corresponding minority interests are reclassified and included in "Other non-current liabilities";
- for commitments granted prior to January 1, 2010, the difference between the amount of the commitments and reclassified minority interests is maintained as an asset on the balance sheet under goodwill, as well as 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 recorded in equity, under "Other reserves".

This accounting policy has no effect on the presentation of minority interests within the income statement.

1.11. Property, plant and equipment

With the exception of vineyard land and real estate units held by Christian Dior Couture, La Belle Jardinière and Le Bon Marché, 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 fiscal year-end. This valuation is based on official published data for recent transactions in the same region, or on independent appraisals. Any difference compared to historical cost is recognized within equity in "Revaluation reserves". If market value falls below acquisition cost the resulting impairment is charged to the income statement.

Vines for champagnes, cognacs and other wines produced by the Group, are considered as biological assets as defined in IAS 41 Agriculture. As their valuation at market value differs little from that recognized at historical cost, no revaluation is undertaken for these assets.

Investment property is measured at cost.

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 is depreciated on a straight-line basis over its estimated useful life; the estimated useful lives are as follows:

• 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.

1.12. 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, 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 in priority 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 in the perspective of a disposal transaction.

Cash flows are forecast 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, e.g. a group of stores, may be distinguished within a particular business segment.

The forecast data required for the cash flow methods is based on budgets and business plans prepared by management of the related business segments. Detailed forecasts cover a five-year period (with the exception of Christian Dior Couture whose business plans cover a three-year period), a period which may be extended in the case of certain brands undergoing strategic repositioning, or which have a production cycle exceeding five years. An estimated final 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. When several forecast scenarios are developed, the probability of occurrence of each scenario is assessed. Forecast cash flows are discounted on the basis of the rate of return to be expected by an investor in the applicable business and include assessment of the risk factor associated with each business.

1.13. Available for sale financial assets

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 include temporary investments in shares, shares of SICAVs, FCPs and other mutual funds, excluding investments made as part of the daily cash management, which are accounted for as "Cash and cash equivalents" (see Note 1.16).

Available for sale financial assets are measured at their listed value at fiscal year-end in the case of quoted investments, and at their net realizable value at that date in the case of unquoted investments.

For available for sale securities, positive or negative changes in value are taken to equity within "Revaluation reserves". If an impairment loss is judged to be definitive, an impairment is recognized and charged to net financial income/expense; the impairment is only reversed through the income statement at the time of sale of the underlying available for sale financial assets.

When assets are held for trading, changes in value are recognized under net financial income/expense.

1.14. 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, especially champagne, is measured at the applicable harvest market value, as if the harvested grapes had been purchased from third parties. Until the date of the harvest, the value of grapes is calculated pro rata temporis on the basis of the estimated yield and market value.

Inventories are valued using the weighted average cost or FIFO methods.

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, date of expiry, etc.) or lack of sales prospects.

1.15. Trade accounts receivable, loans and other receivables

Trade accounts receivable 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 less than their carrying amount.

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 rate method.

1.16. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and highly liquid monetary investments subject to an insignificant risk of changes in value over time.

Monetary investments are measured at their market value and at the exchange rate prevailing at the fiscal year-end, with any changes in value recognized as part of net financial income/expense.

1.17. 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.

When execution of its obligation is expected to be deferred by more than one year, the provision amount is discounted, the effects of which are recognized in net financial income/expense using the effective interest rate method.

1.18. Borrowings

Borrowings are measured at amortized cost, i.e. nominal value net of premium and issue expenses, which are charged progressively to net financial income/expense using the effective interest method.

In the case of hedging against fluctuations in the capital amount of borrowings resulting from changes in interest rates, both the hedged amount of borrowings and the related hedges are measured at their market value at the fiscal year-end, with any changes in those values recognized within net financial income/expense. Market value of hedged borrowings is determined using similar methods as those described hereafter in Note 1.19.

In the case of hedging against fluctuations in future interest payments, the related borrowings remain measured at their amortized cost whilst 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.

Financial debt bearing embedded derivatives is measured at fair value; changes in fair value are recognized within net financial income/expense.

Net financial debt comprises short- and long-term borrowings, the market value at the fiscal year-end of interest rate derivatives, less the amount at the fiscal year-end of current available for sale financial assets, cash and cash equivalents, and other financial assets, in addition to the market value at the fiscal year-end of foreign exchange derivatives related to any of the aforementioned items.

See also Note 1.19 regarding the definition of the concepts of effective and ineffective portions.

1.19. Derivatives

The Group enters into derivative transactions as part of its strategy for hedging foreign exchange and interest rate risks.

IAS 39 subordinates the use of hedge accounting to demonstration and documentation of the effectiveness of hedging relationships when hedges are implemented and subsequently throughout their existence. A hedge is considered to be effective if the ratio of changes in the value of the derivative to changes in the value of the hedged underlying remains within a range of 80 to 125%.

Derivatives are recognized in the balance sheet at their fair value at the fiscal year-end. Changes in their value are accounted for as described in Note 1.7 in the case of foreign exchange hedges, and as described in Note 1.18 in the case of interest rate hedges.

Market value is based on market data and on commonly used valuation models, and may be confirmed in the case of complex instruments by reference to values quoted by independent financial institutions.

Derivatives with maturities in excess of twelve months are disclosed as non-current assets and liabilities.

1.20. Financière Agache, Christian Dior and LVMH treasury shares and related derivatives

Financière Agache treasury shares

Financière Agache shares that are 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.

The cost of disposals of shares is determined by allocation category using the FIFO method. Gains and losses on disposal are taken directly to equity.

Christian Dior and LVMH treasury shares and related instruments

Purchases and sales by Christian Dior and LVMH of their own shares, resulting in changes in percentage holdings of Financière Agache group in Christian Dior and LVMH, are accounted for in the consolidated financial statements of Financière Agache group as acquisitions and disposals of minority interests.

As from January 1, 2010, in accordance with the revised version of IFRS 3, changes in the percentage of Financière Agache's ownership interest in Christian Dior and LVMH have been taken to equity. As this provision is applied prospectively, goodwill recognized as of December 31, 2009 is maintained as an asset on the balance sheet.

LVMH-share settled derivatives that are held by the Group are measured at their acquisition cost and recognized as a deduction from consolidated equity.

1.21. Pensions, reimbursements of medical costs and other employee commitments

When retirement indemnity plans, pensions, reimbursements of medical costs and other commitments entail the payment by the Group of contributions to third party organizations which assume the exclusive responsibility for paying the retirement indemnities, pensions or medical expense reimbursements, these contributions are expensed in the period in which they fall due with no liability recorded on the balance sheet.

When retirement indemnity plans, pensions, reimbursements of medical costs and other commitments are to be borne by the Group, a provision is recorded in the balance sheet in the amount of the corresponding actuarial commitment for the Group, and any changes in this provision are expensed within profit from recurring operations over the period, including effects of discounting.

If this commitment is either partially or wholly funded by payments made by the Group to external financial organizations, these payments 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 salary increases, inflation, life expectancy, staff turnover.

Cumulative actuarial gains or losses are amortized if, at the year-end, they exceed 10% of the higher of the total commitment or the market value of the funded plan assets. These gains or losses are amortized from the period following their recognition over the average residual active life of the relevant employees.

1.22. Current and deferred tax

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 application of tax regulations.

Deferred tax is measured on the basis of the income tax rates enacted at the fiscal year-end; 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 are provided for if distribution is deemed probable.

1.23. Revenue recognition

Definition of revenue

Revenue mainly comprises retail sale within the Group's store network 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 for Fashion and Leather Goods, Selective Retailing and Christian Dior Couture, 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 concern Wines and Spirits, as well as certain Perfumes and Cosmetics and Watches and Jewelry brands. The Group recognizes revenue when title transfers to third party customers, generally upon shipment.

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 and the corresponding trade receivables are reduced by the estimated amount of such returns, and a corresponding entry is made to inventories. The estimated rate of returns is based on statistics of historical returns.

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. On the basis of the distribution agreements, which provide specific rules for allocating these entities' income statement items and assets and liabilities between the Group and Diageo, the Group only recognizes the portion of the income statement and balance sheet attributable to its own brands.

1.24. 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 upon receipt or production of goods or upon completion of services rendered.

1.25. Stock option and similar plans

Share purchase and subscription option plans give rise to recognition of an expense based on the amortization of the expected benefit granted to beneficiaries calculated according to the Black & Scholes method on the basis of the closing share price on the day before the Board Meeting at which the plan is instituted.

For bonus share plans, the expected benefit is calculated on the basis of the closing share price on the day before the Board Meeting at which the plan is instituted, less the amount of dividends expected to accrue during the vesting period.

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 cash-settled compensation plans index-linked to the change in LVMH share price, the gain over the vesting period is estimated at each fiscal year-end 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 benefit resulting from the change in the LVMH share price is recorded in the income statement.

1.26. 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 as inherent to the Group's recurring operations. This caption reflects in particular the impact of changes in the scope of consolidation and the impairment of brands and goodwill, as well as any significant amount of 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.

1.27. Earnings per share

Earnings per share are calculated based on the weighted average number of shares outstanding during the period, excluding treasury shares.

Diluted earnings per share are calculated, where applicable, 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 THE PERCENTAGE OF INTEREST IN CONSOLIDATED ENTITIES

2.1. Fiscal year 2012

Christian Dior Couture

During the fiscal year, the Group acquired the entire share capital of the Vermont embroidery workshops, founded in 1954 by Jean Guy Vermont. This investment was consolidated with effect from June 30, 2012.

Fashion and Leather Goods

In May 2012, the Group acquired the entire share capital of Les Tanneries Roux (France), a supplier of high quality leather. In June 2012, the Group acquired a 100% ownership interest in Arnys (France), a ready-to-wear and made-to-measure menswear label. These two acquisitions were consolidated with effect from June 2012.

Perfumes and Cosmetics

In October 2012, the Group acquired the 20% stake in the share capital of Benefit that it did not own; the price paid generated the recognition of a final goodwill in the amount of 133 million euros, previously recorded under "Goodwill arising on purchase commitments for minority interests."

2.2. Fiscal year 2011

Fashion and Leather Goods

By means of a voluntary cash offer closed in December 2011, the Group acquired 51% of Heng Long International Ltd. ("Heng Long") for an amount of 47 million euros (82 million Singapore dollars), the founding family retaining 49% of the share capital of Heng Long by means of a reinvestment in the acquisition structure. Following this operation, Heng Long was delisted from the Singapore stock exchange in December 2011. The share capital held by the founding family is subject to purchase commitments that can be exercised in several tranches, mainly as from December 2016.

Heng Long is renowned for its expertise in the tanning and finishing of crocodilian leather. Heng Long has been fully consolidated with effect from December 31, 2011. Goodwill arising on this acquisition amounts to 23 million euros and minority interests were valued in the amount of their share in the acquiree's restated net assets. The difference between the value of the purchase commitment for the 49% of the share capital held by the founding family and minority interests, amounting to 24 million euros, was deducted from equity.

Watches and Jewelry

Bulgari

On March 5, 2011, one of our subsidiaries, LVMH, concluded a memorandum of understanding with the Bulgari family, under the terms of which the Bulgari family undertook to contribute to LVMH its majority ownership stake in the share capital of Bulgari SpA, on the basis of a value per share of 12.25 euros for Bulgari shares and a parity of 0.108 LVMH shares for one Bulgari share, thus implicitly valuing LVMH shares at 113 euros per share.

On June 30, 2011, pursuant to this memorandum of understanding, the Board of Directors of LVMH Moët Hennessy - Louis Vuitton SA approved the contribution of 55% (48% on a fully-diluted basis) of the share capital of Bulgari SpA and, as consideration for this contribution, issued 18 million new shares, representing 3.5% of the share capital after this capital increase.

As of June 30, 2011, the acquisition date of the controlling interest, the ownership stake held by the Group amounted to 76.1% of the share capital (66% on a fully-diluted basis) of Bulgari, i.e. 230.1 million shares, resulting on the one hand from the abovementioned contribution transaction, and on the other hand from prior acquisitions on the stock market: 57.9 million shares were acquired during the first quarter of 2011 and 5.9 million shares were already owned as of December 31, 2010.

The carrying amount on the initial consolidation of Bulgari, based on the shares owned on June 30, 2011, broke down as follows:

	Carrying amount at acquisition date of controlling interest *(EUR millions)*	Number of shares *(millions)*	Value per share *(EUR)*
Historical cost price of shares	739	63.8	11.58
Remeasurement at acquisition date of controlling interest	42 [(a)]		
Value of shares acquired prior to acquisition of controlling interest	**781**	**63.8**	
Contribution value of shares contributed by family shareholders	2,038	166.3	12.25
Remeasurement at acquisition date of controlling interest	200 [(b)]		
Value of shares contributed at acquisition of controlling interest	**2,238**	**166.3**	
VALUE OF SHARES HELD AS OF JUNE 30, 2011	**3,019**	**230.1**	

In accordance with IFRS:
(a) Bulgari shares acquired by the Group prior to the acquisition of the controlling interest were revalued at 12.25 euros per share, the share price agreed between the parties for the acquisition of the controlling interest, generating a gain of 42 million euros, which was recognized under "Other operating income and expenses" (see Note 25).
(b) The Bulgari shares contributed by the family shareholders were revalued according to the exchange ratio and the quotation of the LVMH share on the Paris stock exchange as of the acquisition date of the controlling interest, June 30, 2011. The impact of the revaluation, 200 million euros, was recognized under consolidated reserves.

Bulgari was consolidated under the full consolidation method from June 30, 2011, according to the percentage of interest owned, determined on a fully diluted basis, 66%. The table presented below summarizes the definitive allocation, as of June 30, 2012, of the purchase price paid by LVMH at the date on which a controlling interest was acquired:

(EUR millions)	Purchase price allocation
Brands, other intangible assets and tangible assets, net	2,367
Other non-current assets	64
Non-current provisions	(69)
Current assets	906
Current liabilities	(345)
Net financial debt	(24)
Deferred tax	(631)
Revalued net assets	**2,268**
Minority interests at LVMH (34%)	(772)
Revalued net assets, Group share at LVMH (66%)	**1,496**
Goodwill	1,523
Carrying amount of shares held as of June 30, 2011	**3,019**

Goodwill, in the amount of 1,523 million euros, corresponds to Bulgari's expertise, particularly in watches and jewelry, in addition to synergies with the Group's Watches and Jewelry network. The value of the Bulgari brand was estimated at 2,100 million euros.

Since Bulgari SpA was listed on the Milan (Italy) stock exchange our subsidiary LVMH launched, in accordance with applicable market regulations, a public tender offer ("OPA") for all of the Bulgari shares held by minority shareholders at the price of 12.25 euros per share following the contribution transaction.

On September 28, 2011, at the completion of procedure, LVMH held a 98.09% stake in Bulgari, authorizing the Group to launch a squeeze-out procedure ("OPRO") for the purchase of the remaining outstanding shares. As of December 31, 2011, the Group held a 100% stake in the company.

Shares acquired after June 30, 2011 break down as follows:

	Total value *(EUR millions)*	Number of shares *(millions)*	Value per share *(EUR)*
Shares acquired through the public tender offer	1,338	109.2	
Shares acquired through the squeeze-out procedure	82	6.7	
Shares acquired on the stock market	33	2.7	
Shares acquired after June 30, 2011	**1,453**	**118.6**	**12.25**

In accordance with the memorandum of understanding, shares acquired through the public tender offer included 36.8 million shares issued in connection with the early exercise of conversion options by holders of convertible bonds issued in 2009 and 9.5 million shares issued as a result of the early exercise of subscription options granted prior to the acquisition of the controlling interest by the Group in favor of senior executives and employees of Bulgari.

Shares acquired after June 30, 2011 represented a disbursement of 1,453 million euros. The difference between this amount and minority interests' attributable portion of net assets of 772 million euros, which represents 681 million euros, was deducted from consolidated reserves.

Transaction fees relating to the Bulgari acquisition were recognized in "Other operating income and expenses"; they represented an amount of 16 million euros (see Note 25).

The impact of the acquisition of Bulgari on Group cash flows was a cash outflow of 2,025 million euros, net of 89 million euros of cash acquired and of 60 million euros of cash obtained from the exercise of share subscription options. A portion of this amount (705 million euros) represented acquisitions of shares on the market in the first half of the year, with 1,453 million euros corresponding to acquisitions of shares in the second half of the year via the public tender offer. The balance represents acquisition-related costs.

Bulgari's consolidated revenue for the second half of 2011 amounted to 713 million euros, with operating profit of 85 million euros and net profit of 71 million euros. Bulgari's consolidated revenue for 2011 amounted to 1,272 million euros with operating profit of 109 million euros, after deducting non-recurring expenses amounting to 16 million euros relating to the alliance with the Group.

ArteCad

In November 2011, the Group acquired 100% of the share capital of the Swiss company ArteCad SA, for consideration of 60 million Swiss francs (49 million euros), 14 million of which will be paid in 2015. ArteCad is one of the leading Swiss manufacturers of watch dials. ArteCad was fully consolidated as of December 31, 2011. The final goodwill arising on this acquisition amounts to 48 million Swiss francs (40 million euros).

Selective Retailing

The stake held by the Group in the share capital of the company owning the Ile de Beauté stores, one of the leading perfume and cosmetics retail chains in Russia, was increased from 45% to 65% in June 2011, for an amount of 40 million euros. The Group's partner benefits from an option to sell to the Group the remaining 35% stake, which may be exercised in tranches from 2013 to 2016. This investment, which was previously accounted for under equity method, has been fully consolidated since June 1, 2011.

The price paid was allocated to the Ile de Beauté trade name, for an amount of 12 million euros. The final goodwill amounts to 128 million euros, in recognition of Sephora's prospects for expansion in the Russian market. Minority interests were valued in the amount of their share in the acquiree's restated net assets, with the difference between the value of the purchase commitment for the 35% of share capital that was not acquired and non-controlling interests, in the amount of 66 million euros, deducted from consolidated reserves.

2.3. Fiscal year 2010

Wines and Spirits

In December 2010, the Group sold the Montaudon champagne house, which was acquired in 2008. The rights held under grape supply contracts previously held by Montaudon as well as certain industrial assets were retained by the Group.

Perfumes and Cosmetics

The activity operated by La Brosse et Dupont was sold in September 2010.

Selective Retailing

In July 2010, the Group acquired 70% of the share capital of Sack's for a consideration of 75 million euros and entered into a purchase commitment for the remaining 30%, exercisable from fiscal year 2015. Sack's is Brazil's leading online retailer of perfumes and cosmetics and is also a top player in the beauty retail sector in this country. Sack's was fully consolidated with effect from August 2010. Goodwill, determined on the basis of the portion of the net assets acquired by the Group, amounted to 75 million euros. The difference between the value of the purchase commitment for the 30% of the share capital that was not acquired and minority interests, amounting to 30 million euros, was deducted from equity.

Other activities

In November 2010, the Group increased its percentage interest in La Samaritaine's real estate property from 57% to 99%, for consideration of 176 million euros. Acquisition costs, corresponding primarily to registration fees, amounted to 9 million euros. The difference between the acquisition price, including acquisition costs, and the carrying amount of minority interests, corresponding to an amount of 81 million euros, was deducted from Group equity.

2.4. Impact on cash and cash equivalents of changes in the percentage of interest in consolidated entities

(EUR millions)	2012	2011	2010
Purchase price of consolidated investments and of minority interests' shares	(314)	(2,383)	(376)
Positive cash balance/(net overdraft) of companies acquired	-	174	(10)
Proceeds from sale of consolidated investments	17	29	357
(Positive cash balance)/net overdraft of companies sold	-	(5)	(5)
IMPACT ON CASH AND CASH EQUIVALENTS OF CHANGES IN THE PERCENTAGE OF INTEREST IN CONSOLIDATED ENTITIES	**(297)**	**(2,185)**	**(34)**
Of which:			
Purchase and sale of consolidated investments	(90)	(772)	151
Purchase and proceeds from sale of minority interests	(207)	(1,413)	(185)

- In 2012, the impact on the Group's cash position of changes in the percentage of interest in consolidated entities mainly included the effects of the acquisition of the 20% stake in Benefit not previously owned by the Group, the acquisition of 100% stakes in Tanneries Roux and Arnys, as well as the capital increase of Le Peigné SA.
- In 2011, the main impacts of changes in the percentage interest in consolidated entities broke down as follows:
  - 2,025 million euros for the acquisition of Bulgari;
  - 44 million euros for the acquisition of 51% of Heng Long;
  - 49 million euros for the acquisition of ArteCad;
  - 40 million euros, for the acquisition of a 20% stake in Ile de Beauté.
- In 2010, the main impacts of changes in the percentage interest of consolidated entities break down as follows:
  - 185 million euros for the acquisition of minority interests in La Samaritaine;
  - 75 million euros for the acquisition of 70% of Sack's;
  - 20 million euros for the disposal of La Brosse et Dupont;
  - 13 million euros for the disposal of Montaudon.

NOTE 3 – BRANDS, TRADE NAMES AND OTHER INTANGIBLE ASSETS

	2012			2011	2010
(EUR millions)	Gross	Amortization and impairment	Net	Net	Net
Brands	11,485	(374)	11,111	11,142	8,999
Trade names	3,389	(1,380)	2,009	2,044	1,977
License rights	28	(28)	-	1	2
Leasehold rights	542	(278)	264	206	130
Software, web sites	781	(576)	205	178	141
Other	495	(271)	224	215	142
TOTAL	**16,720**	**(2,907)**	**13,813**	**13,786**	**11,391**
Of which:					
Assets held under finance leases	14	(14)	-	-	-

3.1. Movements in the fiscal year

Movements during the year ended December 31, 2012 in the net amounts of brands, trade names and other intangible assets were as follows:

Gross value *(EUR millions)*	Brands	Trade names	Software, web sites	Leasehold rights	Other intangible assets	Total
As of December 31, 2011	**11,476**	**3,450**	**707**	**469**	**470**	**16,572**
Acquisitions	-	-	83	62	94	239
Disposals and retirements	-	-	(34)	(12)	(6)	(52)
Changes in the scope of consolidation	-	-	1	20	3	24
Translation adjustment	9	(61)	(5)	(1)	(7)	(65)
Reclassifications	-	-	29	4	(31)	2
AS OF DECEMBER 31, 2012	**11,485**	**3,389**	**781**	**542**	**523**	**16,720**

Accumulated amortization and impairment *(EUR millions)*	Brands	Trade names	Software, web sites	Leasehold rights	Other intangible assets	Total
As of December 31, 2011	**(334)**	**(1,406)**	**(529)**	**(263)**	**(254)**	**(2,786)**
Amortization expense	(40)	(1)	(88)	(20)	(56)	(205)
Impairment expense	-	-	-	-	-	-
Disposals and retirements	-	-	33	8	7	48
Changes in the scope of consolidation	-	-	(1)	(2)	(2)	(5)
Translation adjustment	-	27	5	(2)	5	35
Reclassifications	-	-	4	1	1	6
AS OF DECEMBER 31, 2012	**(374)**	**(1,380)**	**(576)**	**(278)**	**(299)**	**(2,907)**
NET CARRYING AMOUNT AS OF DECEMBER 31, 2012	**11,111**	**2,009**	**205**	**264**	**224**	**13,813**

The gross value of amortized brands and trade names was 848 million euros as of December 31, 2012.

3.2. Movements in prior fiscal years

Net carrying amount *(EUR millions)*	Brands	Trade names	Software, web sites	Leasehold rights	Other intangible assets	Total
As of December 31, 2009	**8,761**	**1,853**	**112**	**118**	**135**	**10,979**
Acquisitions	1	-	46	33	60	140
Disposals and retirements	-	-	-	(3)	(10)	(13)
Changes in the scope of consolidation	(2)	-	(1)	-	5	2
Amortization expense	(24)	-	(60)	(22)	(27)	(133)
Impairment expense	-	-	-	-	-	-
Translation adjustment	263	124	4	3	22	416
Reclassifications	-	-	40	1	(41)	-
As of December 31, 2010	**8,999**	**1,977**	**141**	**130**	**144**	**11,391**
Acquisitions	-	-	63	53	149	265
Disposals and retirements	-	-	-	-	(1)	(1)
Changes in the scope of consolidation	2,106	12	21	37	18	2,194
Amortization expense	(22)	(1)	(82)	(23)	(54)	(182)
Impairment expense	-	-	-	-	(1)	(1)
Translation adjustment	59	56	2	2	-	119
Reclassifications	-	-	33	7	(39)	1
AS OF DECEMBER 31, 2011	**11,142**	**2,044**	**178**	**206**	**216**	**13,786**

The impact of changes in the scope of consolidation in 2011 corresponded to the valuation of the Bulgari brand in the amount of 2,100 million euros.

3.3. Brands and trade names

The breakdown of brands and trade names by business group is as follows:

	2012			2011	2010
(EUR millions)	Gross	Amortization and impairment	Net	Net	Net
Christian Dior Couture	12	(1)	11	12	12
Wines and Spirits	2,811	(60)	2,751	2,757	2,762
Fashion and Leather Goods	3,609	(242)	3,367	3,390	3,381
Perfumes and Cosmetics	1,287	(23)	1,264	1,265	1,264
Watches and Jewelry	3,534	(6)	3,528	3,518	1,380
Selective Retailing	3,347	(1,333)	2,014	2,049	1,976
Other activities	274	(89)	185	195	201
BRANDS AND TRADE NAMES	**14,874**	**(1,754)**	**13,120**	**13,186**	**10,976**

The brands and trade names recognized in the table above are those that the Group has acquired. The principal acquired brands and trade names as of December 31, 2012 are:

- Wines and Spirits: Hennessy, Moët & Chandon champagnes, Veuve Clicquot, Krug, Château d'Yquem, Belvedere, Glenmorangie, Newton Vineyards and Numanthia Termes;
- Fashion and Leather Goods: Louis Vuitton, Fendi, Donna Karan New York, Céline, Loewe, Givenchy, Kenzo, Thomas Pink, Berluti and Pucci;
- Perfumes and Cosmetics: Parfums Christian Dior, Guerlain, Parfums Givenchy, Make Up For Ever, Benefit Cosmetics, Fresh and Acqua di Parma;
- Watches and Jewelry: Bulgari, TAG Heuer, Zenith, Hublot, Chaumet and Fred;
- Selective Retailing: DFS Galleria, Sephora and Le Bon Marché, Ile de Beauté and Ole Henriksen;
- Other activities: the publications of the media group Les Echos-Investir and the Royal Van Lent-Feadship 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 net selling price as of the closing date for the consolidated financial statements of the Group. This is notably the case for the brands Louis Vuitton, Christian Dior Couture, Veuve Clicquot, and Parfums Christian Dior, or the trade name Sephora, with the understanding that this list must not be considered as exhaustive.

Brands developed by the Group, notably Dom Pérignon, as well as De Beers Diamond Jewellers developed as a joint-venture with the De Beers group, are not capitalized in the balance sheet.

Brands and trade names developed by the Group, in addition to Louis Vuitton, Moët & Chandon, Ruinart, Hennessy, Veuve Clicquot, Parfums Christian Dior and Sephora, represented 37% of total brands and trade names capitalized in the balance sheet and 61% of the Group's consolidated revenue in 2012.

Please refer also to Note 5 for the impairment testing of brands, trade names and other intangible assets with indefinite useful lives.

NOTE 4 – GOODWILL

	2012			2011	2010
(EUR millions)	**Gross**	**Impairment**	**Net**	**Net**	**Net**
Goodwill arising on consolidated investments	7,258	(1,086)	6,172	6,041	4,284
Goodwill arising on purchase commitments for minority interests	2,539	(3)	2,536	1,816	1,621
TOTAL	**9,797**	**(1,089)**	**8,708**	**7,857**	**5,905**

Changes in net goodwill during the fiscal years presented break down as follows:

	2012			2011	2010
(EUR millions)	**Gross**	**Impairment**	**Net**	**Net**	**Net**
As of January 1	8,937	(1,080)	7,857	5,905	5,129
Changes in the scope of consolidation [(a)]	44	1	45	1,743	22
Changes in purchase commitments for minority interests	836	-	836	203	701
Changes in impairment	-	(24)	(24)	(20)	(34)
Translation adjustment	(20)	14	(6)	24	87
Reclassifications	-	-	-	2	-
AS OF DECEMBER 31	**9,797**	**(1,089)**	**8,708**	**7,857**	**5,905**

(a) See Note 2.

Changes in the scope of consolidation in 2011 were mainly attributable to the acquisition of Bulgari for 1,522 million euros, Ile de Beauté for 128 million euros, ArteCad for 38 million euros and Heng Long for 24 million euros.

Changes in the scope of consolidation in fiscal year 2010 were mainly attributable to the acquisition of a 70% equity stake in Sack's in the amount of 76 million euros, net of the effect resulting from the disposal of La Brosse et Dupont of 46 million euros.

Please refer also to Note 20 for goodwill arising on purchase commitments for minority interests.

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 have been subject to annual impairment testing. No significant impairment expense has been recognized in respect of these items during the course of fiscal year 2012. As described in Note 1.12, 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 over the course of each fiscal year.

The main assumptions retained for the determination of these forecast cash flows are as follows:

	2012			2011		2010	
Business group *(as %)*	**Post-tax discount rate**	**Compound annual growth rate for revenue during the plan period**	**Growth rate for the period after the plan**	**Post-tax discount rate**	**Growth rate for the period after the plan**	**Post-tax discount rate**	**Growth rate for the period after the plan**
Christian Dior Couture	8.6	7.0 to 22.0	2.0	8.6	2.0	8.6	2.0
Wines and Spirits	7.5 to 11.2	6.0 to 18.0	2.0	7.5 to 11.2	2.0	7.5 to 11.6	2.0
Fashion and Leather Goods	8 to 13.1	7.0 to 22.0	2.0	8 to 13.3	2.0	8.7 to 12.8	2.0
Perfumes and Cosmetics	8 to 8.4	8.0 to 18.0	2.0	8 to 8.4	2.0	8.0	2.0
Watches and Jewelry	9.2 to 9.6	8.0 to 18.0	2.0	8.5 to 10.3	2.0	9.5 to 10.8	2.0
Selective Retailing	8.4 to 9.6	8.0 to 13.0	2.0	8.4 to 9.6	2.0	7.5 to 8.6	2.0
Other	6.5 to 8.2	2.0 to 4.0	2.0	6.5 to 8.2	2.0	7.5 to 10.0	2.0

Plans generally cover a five-year period, with the exception of Christian Dior Couture where they cover a three-year period, but may be prolonged up to ten years in case of brands for which production cycle exceeds five years or brands undergoing strategic repositioning. The compound annual growth rate for revenue and the improvement in profit margins over plan periods are comparable to the growth achieved in the past four exercises, except for brands undergoing strategic repositioning, for which the improvements projected were greater than historical performance due to the expected effects of the repositioning measures implemented.

As the rise in risk premiums in 2012 was offset by lower interest rates, discount rates are similar to those used in 2011. 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, 2012, the intangible assets with indefinite useful lives that are the most significant in terms of their net carrying amounts and the criteria used for their impairment testing are as follows:

	Brands and trade names *(EUR millions)*	**Goodwill** *(EUR millions)*	**Total** *(EUR millions)*	**Post-tax discount rate** *(as %)*	**Growth rate for the period after the plan** *(as %)*	**Period covered by the forecast cash flows**
Louis Vuitton	2,058	411	2,469	8.0	2.0	5 years
Fendi	713	405	1,118	9.6	2.0	5 years
Bulgari	2,100	1,523	3,623	9.2	2.0	10 years
TAG Heuer	1,027	196	1,223	9.2	2.0	5 years
DFS Galleria	1,734	15	1,749	9.6	2.0	5 years
Hennessy	1,067	47	1,114	7.5	2.0	5 years
Sephora	279	615	894	8.4	2.0	5 years

As of December 31, 2012, for the business segments listed above, a change of 0.5 points 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, 2012, or a reduction of 2 points in the compound 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, six have disclosed intangible assets with a carrying amount close to their value in use. The carrying amount for each of these intangible assets as of December 31, 2012 as well as the impairment loss that would result from a change of 0.5 points in the post-tax discount rate or in the growth rate for the period not covered by the plans, or from a reduction of 2 points in the compound annual growth rate for revenue compared to rates used as of December 31, 2012, are indicated below:

		Amount of impairment if:		
(EUR millions)	**Amount of intangible assets concerned as of 12/31/2012**	**Increase of 0.5% in post-tax discount rate**	**Decrease of 0.5% in growth rate for the period after the plan**	**Decrease of 2% in compound annual growth rate for revenue**
Wines and Spirits	30	4	3	6
Fashion and Leather Goods	211	27	13	48
Other business groups	463	18	10	9
TOTAL	**704**	**49**	**26**	**63**

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

	2012			2011	2010
(EUR millions)	Gross	Depreciation and impairment	Net	Net	Net
Land	1,380	(68)	1,312	1,071	1,042
Vineyard land and producing vineyards	2,009	(80)	1,929	1,825	1,787
Buildings	2,814	(1,418)	1,396	1,467	1,063
Investment property	580	(71)	509	537	299
Leasehold improvements, machinery and equipment	6,196	(3,950)	2,246	1,982	1,716
Assets in progress	738	-	738	519	307
Other tangible fixed assets	1,668	(634)	1,034	916	796
TOTAL	**15,385**	**(6,221)**	**9,164**	**8,317**	**7,010**
Of which:					
Assets held under finance leases	247	(133)	114	118	118
Historical cost of vineyard land and producing vineyards	613	(80)	533	510	497

6.1. Movements in the fiscal year

Movements in property, plant and equipment during 2012 break 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 tangible fixed assets	Total
As of December 31, 2011	**1,923**	**3,686**	**605**	**3,584**	**1,532**	**687**	**519**	**1,538**	**14,074**
Acquisitions	14	158	73	519	110	94	646	163	1,777
Change in the market value of vineyard land	86	-	-	-	-	-	-	-	86
Disposals and retirements	(25)	(71)	-	(243)	(35)	(49)	(3)	(42)	(468)
Changes in the scope of consolidation	-	11	-	11	-	3	-	20	45
Translation adjustment	(5)	(66)	(2)	(55)	(2)	(13)	(7)	(8)	(158)
Other movements, including transfers	16	476	(96)	(128)	43	138	(417)	(3)	29
AS OF DECEMBER 31, 2012	**2,009**	**4,194**	**580**	**3,688**	**1,648**	**860**	**738**	**1,668**	**15,385**

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 tangible fixed assets	Total
As of December 31, 2011	**(98)**	**(1,148)**	**(68)**	**(2,309)**	**(1,015)**	**(497)**	**-**	**(622)**	**(5,757)**
Depreciation expense	(6)	(155)	(5)	(403)	(113)	(93)	-	(99)	(874)
Impairment expense	-	(75)	-	-	(1)	-	-	-	(76)
Disposals and retirements	24	55	-	238	34	48	-	38	437
Changes in the scope of consolidation	-	(5)	-	(7)	-	(3)	-	(13)	(28)
Translation adjustment	-	31	1	36	1	7	-	4	80
Other movements, including transfers	-	(189)	1	184	11	(68)	-	58	(3)
AS OF DECEMBER 31, 2012	**(80)**	**(1,486)**	**(71)**	**(2,261)**	**(1,083)**	**(606)**	**-**	**(634)**	**(6,221)**
NET CARRYING AMOUNT AS OF DECEMBER 31, 2012	**1,929**	**2,708**	**509**	**1,427**	**565**	**254**	**738**	**1,034**	**9,164**

Purchases of property, plant and equipment reflect investments by Louis Vuitton, Christian Dior Couture, Sephora and DFS in their retail networks, those of the champagne houses in their production equipment, of Parfums Christian Dior in new display counters, in addition to the effects of real estate investments dedicated to commercial or rental purposes.

6.2. Movements in prior fiscal years

Net 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: Ot her	Assets in progress	Other tangible fixed assets	Total
As of December 31, 2009	**1,570**	**1,910**	**288**	**1,027**	**453**	**177**	**198**	**726**	**6,349**
Acquisitions	5	159	3	249	77	37	278	135	943
Disposals and retirements	(2)	(4)	(1)	(6)	(4)	(1)	(1)	(10)	(29)
Depreciation expense	(6)	(75)	(5)	(337)	(96)	(66)	-	(107)	(692)
Impairment expense	-	-	-	-	-	-	-	-	-
Change in the market value of vineyard land	206	-	-	-	-	-	-	-	206
Changes in the scope of consolidation	1	(10)	-	-	(1)	-	-	(3)	(13)
Translation adjustment	10	106	8	72	8	8	6	27	245
Other, including transfers	3	19	6	86	23	10	(174)	28	1
As of December 31, 2010	**1,787**	**2,105**	**299**	**1,091**	**460**	**165**	**307**	**796**	**7,010**
Acquisitions	18	312	237	352	95	67	427	182	1,690
Disposals and retirements	-	(14)	-	(9)	(2)	(1)	(12)	1	(37)
Depreciation expense	(7)	(89)	(5)	(371)	(101)	(66)	-	(110)	(749)
Impairment expense	-	(1)	-	-	-	2	-	1	2
Change in the market value of vineyard land	25	-	-	-	-	-	-	-	25
Changes in the scope of consolidation	-	147	-	20	22	2	5	22	218
Translation adjustment	1	60	8	41	2	3	9	3	127
Other, including transfers	1	18	(2)	151	41	18	(217)	21	31
AS OF DECEMBER 31, 2011	**1,825**	**2,538**	**537**	**1,275**	**517**	**190**	**519**	**916**	**8,317**

Purchases of property, plant and equipment in 2010 and 2011 reflected investments by Louis Vuitton, Christian Dior Couture, Sephora and DFS in their retail networks, those of Parfums Christian Dior, the champagne houses and Glenmorangie in their production equipment, in addition to the effects of real estate investments dedicated to administrative, commercial or rental purposes.

NOTE 7 – INVESTMENTS IN ASSOCIATES

	2012			2011	2010
(EUR millions)	Gross	Impairment	Net	Net	Net
Share of net assets of associates as of January 1	561	-	561	681	503
Share of net profit (loss) for the period	49	-	49	10	41
Dividends paid	(18)	-	(18)	(20)	(39)
Changes in the scope of consolidation	1	-	1	(57)	-
Capital increase/reduction	60	-	60	3	(14)
Translation adjustment	(4)	-	(4)	7	8
Impact of revaluation adjustments	131	-	131	(63)	182
SHARE OF NET ASSETS OF ASSOCIATES AS OF DECEMBER 31	**780**	**-**	**780**	**561**	**681**

As of December 31, 2012, investments in associates consisted primarily of:

- a 40% equity stake in Mongoual SA, a real estate company which owns an office building in Paris (France), which is the head office of LVMH Moët Hennessy - Louis Vuitton SA;
- a 45% equity stake in PT. Sona Topas Tourism Industry Tbk (STTI), an Indonesian retail company, which notably holds duty-free sales licenses in airports;
- a 40% equity stake in Le Peigné SA, whose registered office is located in Brussels, Belgium;
- a 50% equity stake in Société Civile Viticole Cheval Blanc, based at Saint Emilion, France.

The impact of the change in the scope of consolidation in 2011 was attributable to accounting for the above-mentioned investment in STII and the change in accounting treatment of Ile de Beauté, which was previously accounted for under the equity method and has been fully consolidated since June 2011 (see Note 2).

NOTE 8 – NON-CURRENT AVAILABLE FOR SALE FINANCIAL ASSETS

	2012			2011	2010
(EUR millions)	Gross	Impairment	Net	Net	Net
TOTAL	**6,892**	**(571)**	**6,321**	**6,278**	**4,149**

Non-current available for sale financial assets changed as follows during the fiscal years presented:

	2012			
(EUR millions)	Total	of which Hermès	2011	2010
As of January 1	**6,278**	**5,438**	**4,149**	**791**
Acquisitions	143	77	542	2,822
Disposals at net realized value	(61)	-	(57)	(157)
Changes in market value	(6)	(106)	1,646	(85)
Changes in impairment	(7)	-	(7)	(13)
Changes in the scope of consolidation	-	-	6	-
Translation adjustment	(6)	-	6	19
Reclassifications from “Other non-current assets” to “Non-current available for sale financial assets”	-	-	-	775
Other reclassifications	(20)	-	(7)	(3)
AS OF DECEMBER 31	**6,321**	**5,409**	**6,278**	**4,149**

As of December 31, 2012, non-current available for sale assets mainly include an investment in Hermès International SCA ("Hermès") with a gross and net amount of 5,409 million euros (5,438 million euros as of December 31, 2011, 3,345 million euros as of December 31, 2010). The stake in the share capital of Hermès increased from 22.4% to 22.6% in 2012, resulting from the acquisition of shares on the market. Given the legal form of Hermès, a "Société en Commandite par Actions", the investment stake held by the Group is not accounted for under the equity method.

As of December 31, 2012, the stake in Hermès, corresponding to 23.9 million shares, represented, on the basis of the Hermès share price at that date on Paris stock exchange, an amount of 5.4 billion euros, for a total amount of 3.5 billion euros on initial recognition (2.5 billion euros in cash after deducting the gain recognized in 2010, upon the settlement of equity linked swaps covering 12.8 million shares).

As of December 31, 2012, the Hermès share price, applied for the purpose of valuing this investment, was 226.30 euros (230.35 as of December 31, 2011, 156.75 as of December 31, 2010).

The increased ownership interest in Hermès during the fiscal year 2010 resulted from the following transactions:

- in October 2010, the reclassification of the 4.5 million securities recognized previously as "Other non-current assets" due to the objective and the form of their ownership to "Non-current available for sale financial assets", amounting to 775 million euros (419 million euros based on the Hermès share price as of December 31, 2009);
- the settlement in October 2010 of equity linked swaps in relation to 12.8 million Hermès shares (hereafter referred to as "ELS"). The ELS contracts were agreed as cash-settled when concluded in 2008 and the terms of these agreements were then amended in October 2010, by way of riders to the original agreements, to allow for settlement in shares;
- finally, purchases of 3.3 million Hermès shares on the market, for a total price of 496 million euros.

Impairment of non-current available for sale financial assets is determined in accordance with the accounting policies described in Note 1.13.

Non-current available for sale financial assets held by the Group as of December 31, 2012 include the following:

(EUR millions)	Percentage of control	Net value	Revaluation reserve [(f)]	Dividends received	Equity	Net profit
Hermès International SCA (France) [(a)]	22.6%	5,409	1,905	167	2,313 [(c)(d)]	594 [(c)(d)]
Hengdeli Holdings Ltd (China) [(a)]	6.3%	75	54	2	599 [(c)(d)]	91 [(c)(d)]
Tod's SpA (Italy) [(a)]	3.5%	102	55	3	683 [(c)(d)]	135 [(c)(d)]
L Real Estate SCA (Luxembourg) [(b)]	65.8%	217	47	-	331 [(e)]	62 [(e)]
L Capital 2 FCPR (France) [(b)]	18.5%	42	-	-	275 [(c)(e)]	(6) [(c)(e)]
Sociedad Textil Lonia SA (Spain) [(b)]	25.0%	32	23	-	126 [(c)(d)]	35 [(c)(d)]
Other investments		444	70	4	-	-
TOTAL		**6,321**	**2,154**	**176**		

(a) Market value of securities as of the close of trading as of December 31, 2012.
(b) Valuation at estimated net realizable value.
(c) Figures provided reflect company information prior to December 31, 2012, as fiscal year-end accounting data for 2012 was not available at the date of preparation of the financial statements.
(d) Consolidated data.
(e) Company data.
(f) Excluding tax impact.

NOTE 9 – OTHER NON-CURRENT ASSETS

(EUR millions)	2012	2011	2010
Warranty deposits	234	281	220
Derivatives	179	631	707
Loans and receivables	201	588	760
Other	23	25	17
TOTAL	**637**	**1,525**	**1,704**

NOTE 10 – INVENTORIES AND WORK IN PROGRESS

	2012			2011	2010
(EUR millions)	Gross	Impairment	Net	Net	Net
Wines and eaux-de-vie in the process of aging	3,491	(26)	3,465	3,366	3,198
Other raw materials and work in progress	1,401	(310)	1,091	973	563
	4,892	**(336)**	**4,556**	**4,339**	**3,761**
Goods purchased for resale	1,458	(132)	1,326	1,121	918
Finished products	3,064	(539)	2,525	2,338	1,575
	4,522	**(671)**	**3,851**	**3,459**	**2,493**
TOTAL	**9,414**	**(1,007)**	**8,407**	**7,798**	**6,254**

The net change in inventories for the periods presented breaks down as follows:

	2012			2011	2010
(EUR millions)	Gross	Impairment	Net	Net	Net
As of January 1	**8,807**	**(1,009)**	**7,798**	**6,254**	**5,911**
Change in gross inventories [(a)]	866	-	866	786	117
Fair value adjustment for the harvest of the period	(26)	-	(26)	14	(3)
Changes in impairment	-	(190)	(190)	(64)	10
Changes in the scope of consolidation	37	(5)	32	694	(39)
Translation adjustment	(87)	7	(80)	140	265
Other, including reclassifications	(183)	190	7	(26)	(7)
AS OF DECEMBER 31	**9,414**	**(1,007)**	**8,407**	**7,798**	**6,254**

(a) Including the impact of product returns. See Note 1.23.

Changes in the scope of consolidation in 2011 primarily reflected the consolidation of Bulgari and Ile de Beauté.

The effects on Wines and Spirits' cost of sales of marking harvests to market are as follows:

(EUR millions)	2012	2011	2010
Fair value adjustment for the harvest of the period	12	50	36
Adjustment for inventory consumed	(38)	(36)	(39)
NET EFFECT ON COST OF SALES OF THE PERIOD	**(26)**	**14**	**(3)**

NOTE 11 – TRADE ACCOUNTS RECEIVABLE

(EUR millions)	2012	2011	2010
Trade accounts receivable, nominal amount	2,284	2,179	1,839
Provision for impairment	(68)	(69)	(62)
Provision for product returns	(180)	(165)	(148)
NET AMOUNT	**2,036**	**1,945**	**1,629**

The change in trade accounts receivable for the periods presented breaks down as follows:

	2012			2011	2010
(EUR millions)	Gross	Impairment	Net	Net	Net
As of January 1	**2,179**	**(234)**	**1,945**	**1,629**	**1,515**
Change in gross receivables	132	-	132	80	27
Changes in provision for impairment	-	1	1	4	7
Changes in provision for product returns	-	(5)	(5)	(13)	(15)
Changes in the scope of consolidation	9	(11)	(2)	183	(24)
Translation adjustment	(46)	1	(45)	57	106
Reclassifications	10	-	10	5	13
AS OF DECEMBER 31	**2,284**	**(248)**	**2,036**	**1,945**	**1,629**

Approximately 64% of the Group's sales is generated through its own stores (64% in 2011, 62% in 2010). The receivable auxiliary balance is comprised primarily of receivables from wholesalers or agents, who are limited in number and with whom the Group maintains ongoing relationships for the most part. Credit insurance is taken out whenever the likelihood that receivables may not be recoverable is justified on reasonable grounds.

As of December 31, 2012, the breakdown of the nominal amount of trade receivables 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	1,903	(12)	1,891
- more than 3 months	75	(3)	72
	1,978	**(15)**	**1,963**
Overdue:			
- less than 3 months	195	(5)	190
- more than 3 months	111	(48)	63
	306	**(53)**	**253**
TOTAL	**2,284**	**(68)**	**2,216**

For each of the fiscal years presented, no single customer represented revenue exceeding 10% of the Group's consolidated revenue.

There is no difference between the present value of trade accounts receivable and their carrying amount.

NOTE 12 – OTHER CURRENT ASSETS

(EUR millions)	2012	2011	2010
Current available for sale financial assets	199	167	255
Derivatives	1,242	149	428
Tax accounts receivable, excluding income taxes	405	481	276
Advances and payments on account to vendors	202	168	147
Prepaid expenses	299	266	203
Other receivables	1,398	1,382	1,239
TOTAL	**3,745**	**2,613**	**2,548**

There is no difference between the present value of other current assets and their carrying amount.

Please also refer to Note 13 Current available for sale financial assets and Note 22 Financial instruments and market risk management.

NOTE 13 – CURRENT AVAILABLE FOR SALE FINANCIAL ASSETS

(EUR millions)	2012	2011	2010
Unlisted securities, shares in non-money market SICAVs and funds	14	15	34
Listed securities	185	152	221
TOTAL	**199**	**167**	**255**
Of which:			
Historical cost of current available for sale financial assets	200	192	319

Net value of current available for sale financial assets changed as follows during the fiscal years presented:

(EUR millions)	2012	2011	2010
As of January 1	**167**	**255**	**244**
Acquisitions	8	256	66
Disposals at net realized value	(14)	(295)	(107)
Changes in market value	13	15	73
Changes in impairment	-	(1)	(26)
Changes in the scope of consolidation [(a)]	-	(72)	-
Translation adjustment	-	2	5
Reclassifications (as)/from “Non-current available for sale financial assets” [(b)]	25	7	-
AS OF DECEMBER 31	**199**	**167**	**255**

(a) Impact related to the acquisition of Bulgari. See Note 2.
(b) See Note 8.

See also Note 1.13 for the method used to determine impairment losses on current available for sale financial assets.

NOTE 14 – CASH AND CASH EQUIVALENTS

(EUR millions)	2012	2011	2010
Fixed term deposits (less than 3 months)	679	610	817
SICAV and FCP money market funds	101	202	385
Ordinary bank accounts	1,851	1,810	1,694
CASH AND CASH EQUIVALENTS PER BALANCE SHEET	**2,631**	**2,622**	**2,896**

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)	2012	2011	2010
Cash and cash equivalents	2,631	2,622	2,896
Bank overdrafts	(324)	(384)	(418)
NET CASH AND CASH EQUIVALENTS PER CASH FLOW STATEMENT	**2,307**	**2,238**	**2,478**

14.1. Change in working capital

The change in working capital breaks down as follows for the periods presented:

(EUR millions)	*Notes*	2012	2011	2010
Change in inventories and work in progress	*10*	(868)	(784)	(116)
Change in trade accounts receivable	*11*	(131)	(65)	(14)
Change in trade accounts payable		175	339	297
Change in other receivables and payables		33	(42)	103
CHANGE IN WORKING CAPITAL [(a)]		**(791)**	**(552)**	**270**

(a) Increase/(Decrease) in cash and cash equivalents.

14.2. Operating investments

Operating investments comprise the following elements for the periods presented:

(EUR millions)	*Notes*	2012	2011	2010
Purchase of intangible fixed assets	*3*	(239)	(265)	(140)
Purchase of tangible fixed assets	*6*	(1,777)	(1,690)	(943)
Changes in accounts payable related to fixed asset purchases		156	124	(15)
Net cash used in purchases of fixed assets [(a)]		**(1,860)**	**(1,831)**	**(1,098)**
Net cash from fixed assets disposals [(a)]		47	31	34
Guarantee deposits paid and other cash flows related to operating investments		(38)	(16)	(8)
OPERATING INVESTMENTS		**(1,851)**	**(1,816)**	**(1,072)**

(a) Increase/(Decrease) in cash and cash equivalents.

NOTE 15 – EQUITY

15.1. Share capital

As of December 31, 2012, issued and fully paid-up shares totaled 3,173,352 (3,173,352 shares as of December 31, 2011 and December 31, 2010), with a par value of 16 euros; 3,167,946 shares with double voting rights, granted to registered shares held for more than two years (3,169,487 as of December 31, 2011, 3,169,544 as of December 31, 2010).

15.2. Treasury shares and related derivatives

The impact on the net assets of the Group of the Financière Agache shares and LVMH-share settled derivatives held within the framework of stock option plans breaks down as follows:

(EUR millions)	2012	2011	2010
Financière Agache treasury shares	5	4	4
Share attributable to Financière Agache in LVMH-share settled derivatives [(a)]	2	8	12
TREASURY SHARES AND RELATED DERIVATIVES	**7**	**12**	**16**

(a) When LVMH-share settled derivatives are exercised and securities are provided in close succession, the settlement of these transactions has no impact on the percentage of ownership.

15.3. Dividends paid by the parent company Financière Agache

In accordance with French regulations, dividends are deducted from the profit for the year and reserves available for distribution of the parent company, after deducting applicable withholding tax and the value attributable to treasury shares.

As of December 31, 2012, the amount available for distribution was 3,541 million euros; an interim dividend of 365 million euros was paid in December 2012 and no final dividend will be proposed to the Shareholders' Meeting of May 29, 2013.

(EUR millions, except for data per share in EUR)	2012	2011	2010
Interim dividend for the current fiscal year (2012: 115 euros; 2011: 125 euros)	365	396	-
Impact of treasury shares	-	-	-
	365	**396**	**-**
Final dividend for the previous fiscal year (2010: 25 euros; 2009: 20 euros)	-	79	63
Impact of treasury shares	-	-	-
	-	**79**	**63**
TOTAL GROSS AMOUNT DISBURSED DURING THE FISCAL YEAR [(a)]	**365**	**475**	**63**

(a) Excluding the impact of tax regulations applicable to the beneficiary.

15.4. Cumulative translation adjustment

The change in the translation adjustment recognized under equity, Group share net of hedging effects of net assets denominated in foreign currency, break down as follows by currency:

(EUR millions)	2012	Change	2011	2010
US dollar	(38)	(18)	(20)	(49)
Swiss franc	136	6	130	121
Japanese yen	39	(19)	58	42
Hong Kong dollar	17	(11)	28	13
Pound sterling	(11)	6	(17)	(24)
Other currencies	22	-	22	16
Foreign currency net investment hedges	(64)	11	(75)	(55)
TOTAL, GROUP SHARE	**101**	**(25)**	**126**	**64**

15.5. Strategy relating to the Group's financial structure

The Group firmly believes that the management of its financial structure contributes, together with the development of the companies it owns and the management of its brand portfolio, to its objective of driving value creation for its shareholders. Furthermore, maintaining a suitable quality credit rating and providing security to the Group's bondholders and bank creditors are core objectives, ensuring good access to markets and favorable conditions.

The Group manages its financial structure so as to ensure real flexibility, allowing it both to seize opportunities and enjoy significant access to markets offering favorable conditions.

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.

With respect to these indicators, the Group seeks to maintain levels allowing for significant financial flexibility, at a reasonable cost.

The Group also promotes financial flexibility by maintaining numerous and varied banking relationships, through the 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 in undrawn confirmed credit lines, so as to largely exceed the outstanding portion of its commercial paper program.

NOTE 16 – STOCK OPTION AND SIMILAR PLANS

As of December 31, 2012, there were no stock option or similar plans granted by Financière Agache.

Expense for the period

(EUR millions)	2012	2011	2010
Christian Dior share purchase option and bonus share plans	8	9	9
LVMH share subscription option, purchase option and bonus share plans	53	52	44
Cash-settled share-based compensation plans index-linked to the change in the LVMH share price	1	1	6
EXPENSE FOR THE FISCAL YEAR	**62**	**62**	**59**

In the calculations presented above, the accounting expense is determined for each plan separately on the basis of the Black & Scholes method, as described in Note 1.25.

LVMH

The volatility of LVMH's shares is determined on the basis of their implicit volatility.

The LVMH share price the day before the grant date of the 2012 plan amounted to 126.90 euros for shares granted on April 5, 2012 and to 120.55 euros for shares granted on July 26, 2012.

The average unit value of non-vested bonus shares granted in 2012 was 114.06 euros for beneficiaries who are French residents for tax purposes and 109.47 euros for beneficiaries with tax residence outside France.

Christian Dior

The volatility of Christian Dior's shares is determined on the basis of their implicit volatility.

The Christian Dior share price at the market close on the date preceding the grant date of the 2012 bonus share plan was 113.95 euros.

The average unit value of non-vested bonus shares granted in 2012 was 103.73 euros for the plan dated April 5, 2012 for beneficiaries with tax residence in France and 99.06 euros for beneficiaries with tax residence outside France.

NOTE 17 – MINORITY INTERESTS

(EUR millions)	2012	2011	2010
As of January 1	**18,110**	**14,123**	**11,691**
Minority interests' share of net profit	2,861	2,529	2,358
Dividends paid to minority interests	(1,362)	(906)	(793)
Effects of changes in control of consolidated entities:			
• effect of subsidiaries' treasury shares	120	96	151
• consolidation of Bulgari	-	2,094	-
• consolidation of Heng Long	-	18	-
• other movements	(19)	-	(3)
Effects of acquisition and disposal of minority interests' shares:			
• acquisition of minority interests in Bulgari	-	(771)	-
• acquisition of minority interests in La Samaritaine	-	-	(104)
• other movements	(53)	(14)	60
Total effects of changes in the percentage of interests in consolidated entities	48	1,423	104
Capital increases subscribed by minority interests	8	4	11
Minority interests' share in gains and losses recognized in equity	29	1,165	837
Minority interests' share in stock option plan expenses	40	39	34
Effects of changes in purchase commitments for minority interests	(105)	(267)	(119)
AS OF DECEMBER 31	**19,629**	**18,110**	**14,123**

The change in minority interests' share in gains and losses recognized in equity including the effect of tax is as follows:

(EUR millions)	Cumulative translation adjustment	Available for sale financial assets	Hedges of future foreign currency cash flows	Vineyard land	Total share of minority interests
As of December 31, 2009	**(442)**	**144**	**49**	**521**	**272**
Changes for the fiscal year	552	205	(25)	105	837
As of December 31, 2010	**110**	**349**	**24**	**626**	**1,109**
Changes for the fiscal year	181	1,013	(39)	10	1,165
Changes due to the contribution of Bulgari and treasury shares	(1)	19	1	9	28
As of December 31, 2011	**290**	**1,381**	**(14)**	**645**	**2,302**
Changes for the fiscal year	(91)	(30)	106	44	29
Changes due to treasury shares	1	3	-	1	5
AS OF DECEMBER 31, 2012	**200**	**1,354**	**92**	**690**	**2,336**

NOTE 18 – BORROWINGS

18.1. Net financial debt

(EUR millions)	2012	2011	2010
Long term borrowings	5,014	6,449	6,062
Short term borrowings	5,798	5,168	3,771
Gross amount of borrowings	**10,812**	**11,617**	**9,833**
Interest rate risk derivatives	(155)	(143)	(89)
Other derivatives	-	1	5
Gross borrowings after derivatives	**10,657**	**11,475**	**9,749**
Current available for sale financial assets	(199)	(167)	(255)
Other financial assets	(72)	(72)	(72)
Cash and cash equivalents	(2,631)	(2,622)	(2,896)
NET FINANCIAL DEBT	**7,755**	**8,614**	**6,526**

Net financial debt does not take into consideration purchase commitments for minority interests included in "Other non-current liabilities" (see Note 20).

In June 2012, LVMH carried out a five-year bond issue in the amount of 850 million US dollars, redeemable on maturity at par value in June 2017. The proceeds of the bond, issued at 99.713% of par value with a coupon rate of 1.625%, were swapped on issuance, thus converting the entire issue into a floating-rate euro-denominated financing arrangement.

In addition, the 760 million euro bond issued by LVMH in 2005 and supplemented in 2008 was redeemed in June 2012.

During the fiscal year, Financière Agache carried out a bond issue at par value in the nominal amount of 275 million euros. The proceeds of the bond, which is redeemable on maturity in October 2017, were swapped on issuance, thus converting the entire issue into a floating-rate financing arrangement; the effective interest rate on the inception of the operation was 3.27%.

18.2. Analysis of gross borrowings

(EUR millions)	2012	2011	2010
Bonds and Euro Medium Term Notes (EMTNs)	4,483	4,260	3,798
Finance and other long term leases	123	135	132
Bank borrowings	408	2,054	2,132
LONG TERM BORROWINGS	**5,014**	**6,449**	**6,062**
Bonds and Euro Medium Term Notes (EMTNs)	696	1,209	1,015
Finance and other long term leases	16	19	17
Bank borrowings	1,892	607	624
Commercial paper	1,935	2,105	929
Other borrowings and credit facilities	834	721	668
Bank overdrafts	324	384	418
Accrued interest	101	123	100
SHORT TERM BORROWINGS	**5,798**	**5,168**	**3,771**
TOTAL GROSS BORROWINGS	**10,812**	**11,617**	**9,833**

The market value of gross borrowings was 10,990 million euros as of December 31, 2012 (11,779 million euros as of December 31, 2011 and 10,007 million euros as of December 31, 2010).

18.3. Bonds and EMTNs

Nominal amount *(in local currency)*	Date of issuance	Maturity	Initial effective interest rate [(a)] *(as %)*	2012 *(EUR millions)*	2011 *(EUR millions)*	2010 *(EUR millions)*
EUR 275,000,000	2012	2017	3.27	274	-	-
USD 850,000,000	2012	2017	1.75	653	-	-
EUR 500,000,000	2011	2018	4.08	521	524	-
EUR 500,000,000	2011	2015	3.47	527	522	-
EUR 300,000,000	2011	2016	4.22	298	297	-
EUR 225,000,000	2010	2015	5.13	225	225	225
EUR 1,000,000,000	2009	2014	4.52	1,036	1,033	1,021
EUR 350,000,000	2009	2014	4.02	349	348	347
CHF 200,000,000	2008	2015	4.04	166	165	161
CHF 200,000,000	2008	2011	3.69	-	-	161
EUR 50,000,000	2008	2011	6.12	-	-	50
EUR 760,000,000 [(b)]	2005 and 2008	2012	3.76	-	759	755
CHF 300,000,000	2007	2013	3.46	253	250	243
EUR 150,000,000	2006	2011	4.37	-	-	150
EUR 600,000,000	2004	2011	4.74	-	-	609
Public bond issues				**4,302**	**4,123**	**3,722**
EUR 250,000,000	2009	2015	4.59	267	263	257
EUR 150,000,000	2009	2017	4.81	167	161	153
Private placements in euros				-	450	450
Private placements in foreign currencies				443	472	231
Private placements (EMTNs)				**877**	**1,346**	**1,091**
TOTAL BONDS AND EMTNs				**5,179**	**5,469**	**4,813**

(a) Before impact of interest rate hedges set up at the time of, or subsequent to, each issuance.
(b) Accumulated amounts and weighted average initial effective interest rate for a 600 million euro bond issued in 2005 at an initial effective interest rate of 3.43%, which was supplemented in 2008 by an amount of 160 million euros issued at an effective rate of 4.99%.

18.4. Finance and other long-term leases

The amount of the Group's debt resulting from finance and other long-term lease agreements, which corresponds to the present value of future payments, breaks down as follows, by maturity:

	2012		2011		2010	
(EUR millions)	Minimum future payments	Present value of payments	Minimum future payments	Present value of payments	Minimum future payments	Present value of payments
Less than one year	24	22	26	24	24	24
One to five years	67	49	78	56	78	56
More than five years	329	69	354	73	354	69
TOTAL MINIMUM FUTURE PAYMENTS	**420**		**458**		**456**	
Impact of discounting	(280)		(305)		(307)	
TOTAL DEBT UNDER FINANCE AND OTHER LONG-TERM LEASE AGREEMENTS	**140**	**140**	**153**	**153**	**149**	**149**

Assets financed or refinanced under finance or other long-term leases relate mainly to property assets or industrial machinery.

18.5. Analysis of gross borrowings by payment date and by type of interest rate

	Gross borrowings			Effects of derivatives			Gross borrowings after derivatives		
(EUR millions)	Fixed rate	Floating rate	Total	Fixed rate	Floating rate	Total	Fixed rate	Floating rate	Total
Maturity:									
2013	2,262	3,536	5,798	5	(9)	(4)	2,267	3,527	5,794
2014	1,454	188	1,642	(1,000)	936	(64)	454	1,124	1,578
2015	1,275	61	1,336	(336)	285	(51)	939	346	1,285
2016	308	-	308	137	(130)	7	445	(130)	315
2017	1,103	7	1,110	(1,069)	1,031	(38)	34	1,038	1,072
2018	527	-	527	-	(5)	(5)	527	(5)	522
Thereafter	89	2	91	-	-	-	89	2	91
TOTAL	**7,018**	**3,794**	**10,812**	**(2,263)**	**2,108**	**(155)**	**4,755**	**5,902**	**10,657**

See Note 22.4 regarding market value of interest rate risk derivatives.

The breakdown by quarter of the amount falling due in 2013 is as follows:

(EUR millions)	Falling due in 2013
First quarter	3,948
Second quarter	716
Third quarter	263
Fourth quarter	871
TOTAL	**5,798**

18.6. Analysis of gross borrowings by currency after derivatives

(EUR millions)	2012	2011	2010
Euro	8,284	9,060	7,449
US dollar	379	609	541
Swiss franc	994	981	984
Japanese yen	362	410	329
Other currencies	638	415	446
TOTAL	**10,657**	**11,475**	**9,749**

In general, the purpose of foreign currency borrowings is to hedge net foreign currency-denominated assets of consolidated companies located outside of the euro zone.

18.7. Sensitivity

On the basis of debt as of December 31, 2012:

- an instantaneous increase of 1 point in the yield curves of the Group's debt currencies would raise the cost of net financial debt by 60 million euros after hedging, and would lower the market value of gross fixed-rate borrowings by 78 million euros after hedging;
- an instantaneous decline of 1 point in these same yield curves would lower the cost of net financial debt by 60 million euros after hedging, and would raise the market value of gross fixed-rate borrowings by 78 million euros after hedging.

18.8. Covenants

As is normal practice for syndicated loans, the Financière Agache group has signed commitments to maintain a percentage interest and voting rights for certain of its subsidiaries, and to maintain a normal financial ratio in this regard.

In connection with certain long-term loan agreements, the Group has undertaken to comply with certain financial covenants (mainly based on a ratio of net financial debt to total equity; financial debt coverage by assets). The current level of these ratios ensures that the Group has substantial financial flexibility with regard to these commitments.

18.9. Undrawn confirmed credit lines

As of December 31, 2012, unused confirmed credit lines totaled 6.4 billion euros.

18.10. Guarantees and collateral

As of December 31, 2012, borrowings hedged by collateral were less than 850 million euros.

NOTE 19 – PROVISIONS

(EUR millions)	2012	2011	2010
Provisions for pensions, reimbursement of medical costs and similar commitments	300	290	267
Provisions for contingencies and losses	1,251	1,123	907
Provisions for reorganization	18	21	20
Non-current provisions	**1,569**	**1,434**	**1,194**
Provisions for pensions, reimbursement of medical costs and similar commitments	14	12	10
Provisions for contingencies and losses	293	303	281
Provisions for reorganization	41	44	57
Current provisions	**348**	**359**	**348**
TOTAL	**1,917**	**1,793**	**1,542**

In 2012, the changes in provisions were as follows:

(EUR millions)	Dec. 31, 2011	Increases	Amounts used	Amounts released	Changes in the scope of consolidation	Other items (including translation adjustment)	Dec. 31, 2012
Provisions for pensions, reimbursement of medical costs and similar commitments	302	69	(55)	(3)	3	(2)	314
Provisions for contingencies and losses	1,426	308	(149)	(48)	1	6	1,544
Provisions for reorganization	65	13	(23)	(3)	-	7	59
TOTAL	**1,793**	**390**	**(227)**	**(54)**	4	11	**1,917**
Of which:							
Profit from recurring operations		219	(186)	(39)			
Net financial income (expense)		-	-	-			
Other		171	(41)	(15)			

Provisions for contingencies and losses correspond to the estimate of the impact on assets and liabilities of risks, disputes, 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 to the tax computation.

Provisions for pensions, reimbursement of medical costs and similar commitments are analyzed in Note 29.

NOTE 20 – OTHER NON-CURRENT LIABILITIES

(EUR millions)	2012	2011	2010
Purchase commitments for minority interests' shares	5,022	4,196	3,687
Derivatives	66	513	645
Employee profit sharing [(a)]	93	88	89
Other liabilities	296	217	166
TOTAL	**5,477**	**5,014**	**4,587**

(a) French companies only, pursuant to legal provisions.

As of December 31, 2012, 2011 and 2010 purchase commitments for minority interests mainly include the put option granted to Diageo plc for its 34% share in Moët Hennessy, with six-months' advance notice and for 80% of the fair value of Moët Hennessy at the exercise date of the commitment. With regard to this commitment's valuation, the fair value was determined by applying the share price multiples of comparable firms to Moët Hennessy's consolidated operating results.

Moët Hennessy SNC 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 and excluding certain Champagne vineyards.

Purchase commitments for minority interests also include commitments relating to minority shareholders in Ile de Beauté (35%), Heng Long (39%) and distribution subsidiaries in various countries, mainly in the Middle East. Minority interests in Benefit exercised their put option in 2012 (see Note 2 for further information).

The present value of the other non-current liabilities is identical to their carrying amount.

NOTE 21 – OTHER CURRENT LIABILITIES

(EUR millions)	**2012**	**2011**	**2010**
Market value of derivatives	835	269	349
Employees and social institutions	986	906	725
Employee profit sharing [(a)]	95	86	72
Taxes other than income taxes	376	394	322
Advances and payments on account from customers	127	162	195
Deferred payment for tangible and financial non-current assets	391	291	184
Deferred income	116	111	76
Other liabilities	727	625	527
TOTAL	**3,653**	**2,844**	**2,450**

(a) French companies only, pursuant to legal provisions.

The present value of the other current liabilities is identical to their carrying amount.

Derivatives are analyzed in Note 22.

NOTE 22 – FINANCIAL INSTRUMENTS AND MARKET RISK MANAGEMENT

22.1. Organization of foreign exchange, interest rate and equity market risk management

Financial instruments are used by the Group mainly to hedge risks arising from Group activity and protect its assets.

The management of foreign exchange and interest rate risk, in addition to transactions involving shares and financial instruments, are centralized at each level.

The Group has implemented policies, management guidelines and procedures to manage, measure and monitor these market risks.

These activities are organized based on a segregation of duties between hedging (front office), administration (back office) and financial control.

The backbone of this organization is integrated information systems that allow hedging transactions to be monitored quickly.

Hedging strategies are presented to the Group's various Audit Committees.

Hedging decisions are made according to a clearly established process that includes regular presentations to the management bodies concerned and detailed supporting documentation.

Counterparties are selected based on their rating and in accordance with the Group's risk diversification strategy.

22.2. Presentation of financial assets and liabilities in the balance sheet

Breakdown and fair value of financial assets and liabilities according to the measurement categories defined by IAS 39

		2012		2011		2010	
(EUR millions)	*Notes*	**Balance sheet value**	**Fair value**	**Balance sheet value**	**Fair value**	**Balance sheet value**	**Fair value**
Non-current available for sale financial assets	*8*	6,321	6,321	6,278	6,278	4,149	4,149
Current available for sale financial assets	*13*	199	199	167	167	255	255
Available for sale financial assets (see Note 1.13)		**6,520**	**6,520**	**6,445**	**6,445**	**4,404**	**4,404**
Other non-current assets, excluding derivatives	*9*	458	458	894	894	997	997
Trade accounts receivable	*11*	2,036	2,036	1,945	1,945	1,629	1,629
Other current assets [(a)]	*12*	2,005	2,005	2,031	2,031	1,662	1,662
Loans and receivables (see Note 1.15)		**4,499**	**4,499**	**4,870**	**4,870**	**4,288**	**4,288**
Cash and cash equivalents (see Note 1.16)	*14*	2,631	2,631	2,622	2,622	2,896	2,896
Financial assets, excluding derivatives		**13,650**	**13,650**	**13,937**	**13,937**	**11,588**	**11,588**
Long term borrowings	*18*	5,014	5,190	6,449	6,602	6,062	6,226
Short term borrowings	*18*	5,798	5,800	5,168	5,177	3,771	3,781
Trade accounts payable		3,196	3,196	3,012	3,012	2,348	2,348
Other non-current liabilities [(b)]	*20*	389	389	305	305	255	255
Other current liabilities [(c)]	*21*	2,702	2,702	2,464	2,464	2,025	2,025
Financial liabilities, excluding derivatives (see Note 1.18)		**17,099**	**17,277**	**17,398**	**17,560**	**14,461**	**14,635**
Derivatives (see Note 1.19)	*22.3*	**520**	**520**	**(2)**	**(2)**	**141**	**141**

(a) Excluding derivatives, current available for sale financial assets and prepaid expenses.
(b) Excluding derivatives and purchase commitments for minority interests.
(c) Excluding derivatives and deferred income.

Fair value may be considered as nearly equivalent to market value, the latter being defined as the price that an informed third party acting freely would be willing to pay or receive for the asset or liability in question.

Breakdown of financial assets and liabilities measured at fair value by measurement method

	2012			2011			2010		
(EUR millions)	Available for sale financial assets	Derivatives	Cash and cash equivalents	Available for sale financial assets	Derivatives	Cash and cash equivalents	Available for sale financial assets	Derivatives	Cash and cash equivalents
Valuation based on [a]:									
Published price quotations	5,784		2,631	5,761		2,622	3,787		2,896
Formula based on market data	242	1,421		199	780		192	1,135	
Private quotations	494			485			425		
ASSETS	**6,520**	**1,421**	**2,631**	**6,445**	**780**	**2,622**	**4,404**	**1,135**	**2,896**
Valuation based on [a]:									
Published price quotations									
Formula based on market data		901			782			994	
Private quotations									
LIABILITIES		**901**			**782**			**994**	

(a) The valuation methods used correspond to the following levels in the IFRS 7 fair value measurement hierarchy:

- Quoted prices .... level 1
- Formulas based on market data .... level 2
- Private quotations .... level 3

The amount of financial assets valued on the basis of private quotations changed as follows in 2012:

(EUR millions)	2012
As of January 1	**485**
Purchases	57
Proceeds from disposals (at net realized value)	(58)
Gains and losses recognized in income statement	5
Gains and losses recognized in equity	5
AS OF DECEMBER 31	**494**

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*	2012	2011	2010
Interest rate risk					
Assets:	non-current		134	113	47
	current		57	59	67
Liabilities:	non-current		(26)	(17)	(1)
	current		(10)	(12)	(24)
		22.4	**155**	**143**	**89**
Foreign exchange risk					
Assets:	non-current		17	2	9
	current		373	83	139
Liabilities:	non-current		(40)	(8)	(5)
	current		(10)	(257)	(122)
		22.5	**340**	**(180)**	**21**
Other risks					
Assets:	non-current		28	516	651
	current		812	7	222
Liabilities:	non-current		-	(488)	(639)
	current		(815)	-	(203)
			25	**35**	**31**
TOTAL					
Assets:	non-current	*9*	179	631	707
	current	*12*	1,242	149	428
Liabilities:	non-current	*20*	(66)	(513)	(645)
	current	*21*	(835)	(269)	(349)
			520	**(2)**	**141**

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, to contain borrowing costs, and to protect net profit from the effects of significant changes in interest rates.

As such, the Group uses interest rate swaps and options.

Derivatives used to manage interest rate risk outstanding as of December 31, 2012 break down as follows:

	Nominal amounts by maturity			Market value [(a)]		
(EUR millions)	2013	2014 to 2017	Total	Fair value hedges	Not allocated	Total
Interest rate swaps in euros:						
- fixed rate payer	91	475	566	(27)	(4)	(31)
- floating rate payer	91	2,175	2,266	175	3	178
- floating rate/floating rate	125	152	277	-	-	-
Foreign currency swaps	438	1,621	2,059	8	-	8
TOTAL				**156**	**(1)**	**155**

(a) Gain/(Loss).

22.5. Derivatives used to manage foreign exchange risk

A significant part of Group companies' sales to customers and to their own retail 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 inter-company 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.

In addition, the Group may also use appropriate financial instruments to hedge the net worth of subsidiaries outside the euro zone, 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, 2012 break down as follows:

	Nominal amounts by fiscal year of allocation				Market value (a)				
(EUR millions)	**2012**	**2013**	**Thereafter**	**Total**	**Fair value hedges**	**Future cash flow hedges**	**Foreign currency net investment hedges**	**Not allocated**	**Total**
Options purchased									
Put USD	74	19	-	93	-	1	-	2	3
Put JPY	-	29	-	29	-	5	-	-	5
Put GBP	36	62	-	98	1	2	-	-	3
	110	**110**	**-**	**220**	**1**	**8**	**-**	**2**	**11**
Collars									
Written USD	358	3,652	-	4,010	5	147	-	2	154
Written JPY	17	47	-	64	1	5	-	-	6
	375	**3,699**	**-**	**4,074**	**6**	**152**	**-**	**2**	**160**
Forward exchange contracts (b)									
USD	139	(18)	-	121	3	-	-	1	4
JPY	134	624	89	847	10	77	-	1	88
GBP	-	19	-	19	-	-	-	-	-
Other	41	(50)	-	(9)	1	3	-	-	4
	314	**575**	**89**	**978**	**14**	**80**	**-**	**2**	**96**
Foreign exchange swaps (b)									
USD	3,083	333	-	3,416	(2)	-	24	20	42
CHF	249	40	-	289	-	-	(3)	1	(2)
GBP	265	5	-	270	-	-	-	3	3
JPY	196	-	-	196	1	-	4	21	26
Other	330	8	-	338	-	-	14	(10)	4
	4,123	**386**	**-**	**4,509**	**(1)**	**-**	**39**	**35**	**73**
TOTAL					**20**	**240**	**39**	**41**	**340**

(a) Gain/(Loss).
(b) Sale/(Purchase).

The impact on income statement of gains and losses on hedges of future cash flows as well as the future cash flows hedged, using these instruments, will be recognized in 2013; the amount will depend on exchange rates at this date.

The impacts of a 10% change in the value of the US dollar, the Japanese yen, the Swiss franc and the Hong Kong dollar with respect to the euro on the net profit for fiscal year 2012, net equity (excluding net profit) and the market value of derivatives as of December 31, 2012, including the effect of hedges outstanding during the fiscal year, would be as follows:

	US dollar		**Japanese yen**		**Swiss franc**		**Hong Kong dollar**	
(EUR millions)	**+10%**	**-10%**	**+10%**	**-10%**	**+10%**	**-10%**	**+10%**	**-10%**
Net profit	24	(204)	2	(13)	16	(17)	47	(48)
Equity, excluding net profit	191	(212)	33	(33)	203	(212)	113	(123)

The data presented in the table above should be assessed on the basis of the characteristics of the hedging instruments outstanding in fiscal year 2012, mainly comprising options, collars and futures contracts.

As of December 31, 2012, at Group level, forecast cash collections for 2013 are hedged in the proportion of 83% in US dollars and 77% in Japanese yen.

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 risks of share price changes either directly, as a result of its holding of subsidiaries, equity investments and current available for sale financial assets, or indirectly, as a result of its holding of funds which are themselves partially invested in shares.

The Group may also use equity-based derivatives to create synthetically an economic exposure to certain assets, or to hedge cash-settled compensation plans index-linked to the share price. The carrying amount of these unlisted financial instruments corresponds to the estimate of the amount, provided by the counterparty, of the valuation at the fiscal year-end. The valuation of financial instruments thus takes into consideration market parameters such as interest rates and share prices. As of December 31, 2012, derivatives used to manage equity risk with an impact on the Group's net profit have a positive market value of 28 million euros. Considering nominal values of 20 million euros for those derivatives, a uniform 1% change in their underlying assets' share prices as of December 31, 2012 would induce a net impact on the Group's profit for an amount of less than 0.3 million euros. Most of these instruments mature in 2014.

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 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, 2012 have a negative market value of 4 million euros. Considering nominal values of 97 million euros for those derivatives, a uniform 1% change in their underlying assets' share prices as of December 31, 2012 would induce a net impact on the Group's consolidated reserves for an amount of less than 1 million euros. These instruments mature in 2013.

22.7. Liquidity risk

The Group's local liquidity risks are generally not significant. Its overall exposure to liquidity risk can be assessed (a) with regard to outstanding amounts in respect of its commercial paper program (1.9 billion euros) and (b) by comparing the amount of the short term portion of its net financial debt before hedging (5.8 billion euros) to the amount of cash and cash equivalents (2.6 billion euros), i.e. 3.2 billion euros as of December 31, 2012. Should any of these instruments not be renewed, the Group has access to undrawn confirmed credit lines totaling 6.4 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 paper 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, 2012, at nominal value and with interest, excluding discounting effects:

(EUR millions)	**2013**	**2014**	**2015**	**2016**	**2017**	**Over 5 years**	**Total**
Bonds and EMTNs	860	1,483	1,223	359	1,107	505	5,537
Bank borrowings	1,911	244	144	5	12	4	2,320
Other borrowings and credit facilities	845	-	-	-	-	-	845
Finance and other long term leases	23	20	18	15	14	329	419
Commercial paper	1,935	-	-	-	-	-	1,935
Bank overdrafts	324	-	-	-	-	-	324
Gross financial debt	5,898	1,747	1,385	379	1,133	838	11,380
Other liabilities, current and non-current [(a)]	2,702	87	46	48	38	99	3,020
Trade accounts payable	3,196	-	-	-	-	-	3,196
Other financial liabilities	5,898	87	46	48	38	99	6,216
TOTAL FINANCIAL LIABILITIES	**11,796**	**1,834**	**1,431**	**427**	**1,171**	**937**	**17,596**

(a) Corresponds to "Other current liabilities" (excluding derivatives and deferred income) for 2,702 million euros and to "Other non-current liabilities" (excluding derivatives, purchase commitments for minority interests and prepaid expenses of 71 million euros as of December 31, 2012) for 318 million euros. See Note 22.2.

See Note 30.3 regarding contractual maturity dates of collateral and other guarantees commitments, Notes 22.4 and 22.5 regarding foreign exchange derivatives and Notes 18.5 and 22.4 regarding interest rate risk derivatives.

NOTE 23 – SEGMENT INFORMATION

The Group's brands and trade names are organized into seven business groups. Five business groups – Christian Dior Couture, Wines and Spirits, Fashion and Leather Goods, Perfumes and Cosmetics, Watches and Jewelry – comprise brands dealing with the same category of products that use similar production and distribution processes, in addition to a specific management team. The Selective Retailing business 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 abovementioned business groups, most often relating to the Group's new businesses and holding or real estate companies.

23.1. Information by business group

Fiscal year 2012

(EUR millions)	Christian Dior Couture	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	1,225	4,101	9,871	3,164	2,765	7,849	312	-	29,287
Intra-group sales	13	21	55	449	71	30	22	(661)	-
TOTAL REVENUE	**1,238**	**4,122**	**9,926**	**3,613**	**2,836**	**7,879**	**334**	**(661)**	**29,287**
Profit from recurring operations	131	1,250	3,264	408	334	854	(196)	(31)	6,014
Other operating income and expenses	1	(13)	(108)	(7)	(8)	(19)	(26)	-	(180)
Depreciation and amortization expense	60	100	414	112	122	229	42	-	1,079
Impairment expense	-	1	81	-	-	3	15	-	100
Intangible assets and goodwill [b]	44	5,636	4,625	1,684	5,436	2,916	1,487	-	21,828
Property, plant and equipment	426	1,882	1,768	312	378	1,252	3,146	-	9,164
Inventories	199	3,997	1,158	339	1,213	1,421	249	(169)	8,407
Other operating assets	160	1,165	875	653	773	589	593	13,171 [c]	17,979
TOTAL ASSETS	**829**	**12,680**	**8,426**	**2,988**	**7,800**	**6,178**	**5,475**	**13,002**	**57,378**
Equity								27,130	27,130
Liabilities	289	1,186	1,824	1,067	682	1,791	718	22,691 [d]	30,248
TOTAL LIABILITIES AND EQUITY	**289**	**1,186**	**1,824**	**1,067**	**682**	**1,791**	**718**	**49,821**	**57,378**
Operating investments [e]	(150)	(181)	(579)	(196)	(136)	(332)	(277)	-	(1,851)

Fiscal year 2011

(EUR millions)	Christian Dior Couture	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	987	3,498	8,671	2,850	1,900	6,413	296	-	24,615
Intra-group sales	13	13	41	345	49	23	19	(503)	-
TOTAL REVENUE	**1,000**	**3,511**	**8,712**	**3,195**	**1,949**	**6,436**	**315**	**(503)**	**24,615**
Profit from recurring operations	85	1,092	3,075	348	265	716	(229)	(38)	5,314
Other operating income and expenses	(2)	(16)	(26)	(2)	(6)	(26)	(6)	-	(84)
Depreciation and amortization expense	59	92	349	105	82	209	35	-	931
Impairment expense	-	-	-	-	-	5	14	-	19
Intangible assets and goodwill [b]	42	4,802	4,690	1,643	5,420	2,905	1,542	-	21,044
Property, plant and equipment	331	1,765	1,635	237	354	1,114	2,881	-	8,317
Inventories	171	3,896	1,030	337	1,118	1,181	193	(128)	7,798
Other operating assets	207	1,063	669	562	689	496	402	12,948 [c]	17,036
TOTAL ASSETS	**751**	**11,526**	**8,024**	**2,779**	**7,581**	**5,696**	**5,018**	**12,820**	**54,195**
Equity	-	-	-	-	-	-	-	24,782	24,782
Liabilities	243	1,259	1,708	1,019	672	1,496	775	22,241 [d]	29,413
TOTAL LIABILITIES AND EQUITY	**243**	**1,259**	**1,708**	**1,019**	**672**	**1,496**	**775**	**47,023**	**54,195**
Operating investments [e]	(87)	(155)	(437)	(150)	(117)	(215)	(655)	-	(1,816)

Data for fiscal year 2011 integrated data for Bulgari, which has been fully consolidated since June 30, 2011. Considering the fact that Bulgari is managed by a unique management team, dealing with all of the businesses related to Bulgari, which involve mainly manufacturing and distributing watches and jewelry, all of Bulgari's activities, including perfumes and cosmetics, have been included in the Watches and Jewelry business group.

As of December 31, 2011 and with respect to the period of Bulgari's consolidation within the Group, its perfumes and cosmetics business accounted for consolidated revenue of 142 million euros.

Fiscal year 2010

(EUR millions)	Christian Dior Couture	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	813	3,241	7,549	2,805	964	5,359	381	-	21,112
Intra-group sales	13	9	32	271	21	19	29	(394)	-
TOTAL REVENUE	**826**	**3,250**	**7,581**	**3,076**	**985**	**5,378**	**410**	**(394)**	**21,112**
Profit from recurring operations	35	919	2,555	332	128	536	(159)	(19)	4,327
Other operating income and expenses	(14)	(21)	-	(39)	(3)	(26)	(31)	-	(134)
Depreciation and amortization expense	54	97	304	106	29	201	34	-	825
Impairment expense	-	-	1	-	-	17	16	-	34
Intangible assets and goodwill [(b)]	40	4,608	4,630	1,628	1,709	2,729	1,539	-	16,883
Property, plant and equipment	306	1,671	1,474	221	102	1,060	2,176	-	7,010
Inventories	148	3,615	770	275	403	935	196	(88)	6,254
Other operating assets	167	1,029	560	465	234	425	363	11,581 [(c)]	14,824
TOTAL ASSETS	**661**	**10,923**	**7,434**	**2,589**	**2,448**	**5,149**	**4,274**	**11,493**	**44,971**
Equity	-	-	-	-	-	-	-	19,663	19,663
Liabilities	190	1,069	1,334	971	221	1,188	942	19,393 [(d)]	25,308
TOTAL LIABILITIES AND EQUITY	**190**	**1,069**	**1,334**	**971**	**221**	**1,188**	**942**	**39,056**	**44,971**
Operating investments [(e)]	(96)	(79)	(370)	(104)	(36)	(196)	(191)	-	(1,072)

(a) Eliminations correspond to sales between business groups; these generally consist of sales from business groups other than Selective Retailing to Selective Retailing. 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) Brands, trade names, licenses, and goodwill correspond to the net carrying amounts shown under Notes 3 and 4.
(c) Assets not allocated include investments in associates, available for sale financial assets, other financial assets, and income tax receivables.
As of December 31, 2012, they include the 22.6% shareholding in Hermès International, representing an amount of 5,409 million euros, see Note 8 (5,438 million euros as of December 31, 2011 and 3,345 million euros as of December 31, 2010).
(d) Liabilities not allocated include financial debt and both current and deferred tax liabilities.
(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)	2012	2011	2010
France	3,270	2,999	2,836
Europe (excluding France)	5,846	5,131	4,541
United States	6,497	5,323	4,693
Japan	2,438	2,035	1,851
Asia (excluding Japan)	8,339	6,757	5,207
Other countries	2,897	2,370	1,984
REVENUE	**29,287**	**24,615**	**21,112**

Operating investments by geographic region are as follows:

(EUR millions)	2012	2011	2010
France	667	707	417
Europe (excluding France)	314	630	227
United States	299	132	134
Japan	80	52	29
Asia (excluding Japan)	402	224	222
Other countries	89	71	43
OPERATING INVESTMENTS	**1,851**	**1,816**	**1,072**

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 sales by business group break down as follows:

(EUR millions)	Christian Dior Couture	Wines and Spirits	Fashion and Leather Goods	Perfumes and Cosmetics	Watches and Jewelry	Selective Retailing	Other and holding companies	Eliminations	Total
First quarter	284	926	2,374	899	630	1,823	84	(160)	6,860
Second quarter	289	823	2,282	828	713	1,767	99	(150)	6,651
Third quarter	325	1,004	2,523	898	690	1,862	68	(156)	7,214
Fourth quarter	340	1,369	2,747	988	803	2,427	83	(195)	8,562
TOTAL 2012	**1,238**	**4,122**	**9,926**	**3,613**	**2,836**	**7,879**	**334**	**(661)**	**29,287**
First quarter	221	759	2,029	803	261	1,421	75	(108)	5,461
Second quarter	224	670	1,942	715	315	1,410	83	(105)	5,254
Third quarter	260	868	2,218	793	636	1,547	74	(135)	6,261
Fourth quarter	295	1,214	2,523	884	737	2,058	83	(155)	7,639
TOTAL 2011	**1,000**	**3,511**	**8,712**	**3,195**	**1,949**	**6,436**	**315**	**(503)**	**24,615**
First quarter	180	635	1,729	736	204	1,181	77	(94)	4,648
Second quarter	193	658	1,787	705	239	1,238	75	(90)	4,805
Third quarter	221	846	1,948	805	244	1,294	68	(99)	5,327
Fourth quarter	232	1,111	2,117	830	298	1,665	190	(111)	6,332
TOTAL 2010	**826**	**3,250**	**7,581**	**3,076**	**985**	**5,378**	**410**	**(394)**	**21,112**

NOTE 24 – REVENUE AND EXPENSES BY NATURE

24.1. Analysis of revenue

Revenue consists of the following:

(EUR millions)	2012	2011	2010
Revenue generated by brands and trade names	28,814	24,195	20,714
Royalties and license revenue	189	168	154
Income from investment property	30	34	81
Other revenue	254	218	163
TOTAL	**29,287**	**24,615**	**21,112**

24.2. Expenses by nature

Profit from recurring operations includes the following expenses:

(EUR millions)	2012	2011	2010
Advertising and promotion expenses	3,470	2,854	2,376
Commercial lease expenses	2,092	1,684	1,354
Personnel costs	5,058	4,282	3,768
Research and development expenses	69	63	46

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, 2012, a total of 3,409 stores were operated by the Group worldwide (3,250 in 2011, 2,779 in 2010), 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)	2012	2011	2010
Fixed or minimum lease payments	923	716	597
Variable portion of indexed leases	501	424	273
Airport concession fees – fixed portion or minimum amount	219	227	281
Airport concession fees – variable portion	449	317	203
COMMERCIAL LEASE EXPENSES	**2,092**	**1,684**	**1,354**

Personnel costs consist of the following elements:

(EUR millions)	2012	2011	2010
Salaries and social charges	4,913	4,152	3,642
Pensions, reimbursement of medical costs and similar expenses in respect of defined benefit plans	83	68	67
Stock option plan and related expenses	62	62	59
PERSONNEL COSTS	**5,058**	**4,282**	**3,768**

NOTE 25 – OTHER OPERATING INCOME AND EXPENSES

(EUR millions)	2012	2011	2010
Net gains (losses) on disposals of fixed assets	(4)	(3)	(34)
Restructuring costs	(28)	(41)	(39)
Remeasurement of shares purchased prior to their initial consolidation	-	22	-
Transaction costs relating to the acquisition of consolidated companies	(3)	(17)	-
Impairment or amortization of brands, trade names, goodwill and other property	(139)	(43)	(57)
Other items, net	(6)	(2)	(4)
OTHER OPERATING INCOME AND EXPENSES	**(180)**	**(84)**	**(134)**

Amounts booked as impairment or amortization in 2012 include an impairment loss of 74 million euros related to fixed property assets, with the balance comprised of amortization or impairment charges for brands and goodwill.

In 2011, the investments in Bulgari and Ile de Beauté held prior to the acquisition date of a controlling interest were revalued at market value at that date. Transaction costs essentially related to these two transactions.

In 2010, net losses on disposals mainly related to the disposals of La Brosse et Dupont and of Montaudon.

See Note 2 Changes in the percentage interest of consolidated entities.

NOTE 26 – NET FINANCIAL INCOME/(EXPENSE)

(EUR millions)	2012	2011	2010
Borrowing costs	(286)	(326)	(294)
Income from cash, cash equivalents and current available for sale financial assets	77	99	54
Fair value adjustment of borrowings and interest rate hedges	(2)	(3)	(1)
Cost of net financial debt	**(211)**	**(230)**	**(241)**
Dividends received from non-current available for sale financial assets	176	54	16
Ineffective portion of foreign currency hedges	(45)	(114)	(107)
Net gain/(loss) related to available for sale financial assets and other financial instruments	42	(1)	865
Other items, net	(32)	(32)	(18)
Other financial income/(expense)	**141**	**(93)**	**756**
NET FINANCIAL INCOME/(EXPENSE)	**(70)**	**(323)**	**515**

Income from cash, cash equivalents and current available for sale financial assets comprises the following items:

(EUR millions)	2012	2011	2010
Income from cash and cash equivalents	20	38	15
Interest from current available for sale financial assets	57	61	39
INCOME FROM CASH, CASH EQUIVALENTS AND CURRENT AVAILABLE FOR SALE FINANCIAL ASSETS	**77**	**99**	**54**

The revaluation effects of financial debt and interest rate derivatives are attributable to the following items:

(EUR millions)	2012	2011	2010
Hedged financial debt	(22)	(65)	(16)
Hedging instruments	16	63	14
Unallocated derivatives	4	(1)	1
EFFECTS OF REVALUATION OF FINANCIAL DEBT AND INTEREST RATE INSTRUMENTS	**(2)**	**(3)**	**(1)**

The ineffective portion of exchange rate derivatives breaks down as follows:

(EUR millions)	2012	2011	2010
Financial cost of commercial foreign exchange hedges	(48)	(144)	(125)
Financial cost of foreign-currency denominated net investment hedges	11	24	(9)
Change in the fair value of unallocated derivatives	(8)	6	27
INEFFECTIVE PORTION OF FOREIGN EXCHANGE DERIVATIVES	**(45)**	**(114)**	**(107)**

In 2012, dividends received in respect of non-current available for sale financial assets include an exceptional dividend received from Hermès International SCA in the amount of 120 million euros (5 euros per share).

In 2010, the net gain related to available for sale financial assets and other financial instruments included an amount of 1,004 million euros related to the Hermès transactions which corresponded to the gain, net of transaction costs, recorded on the settlement of equity linked swaps; this gain amounts to the difference between the market value of the securities acquired at the settlement date of the contracts and their value based on the Hermès share price on Paris stock exchange as of December 31, 2009.

In 2012, as well as in 2011 and 2010, excluding the Hermès transactions, the net gain/loss related to available for sale financial assets and other financial instruments is due to changes in market performance and the recognition of impairment losses on current and non-current available for sale financial assets.

NOTE 27 – INCOME TAXES

27.1. Analysis of the income tax expense

(EUR millions)	2012	2011	2010
Current income taxes for the fiscal year	(2,113)	(1,702)	(1,512)
Current income taxes relating to previous fiscal years	20	(2)	(6)
Current income taxes	**(2,092)**	**(1,704)**	**(1,518)**
Change in deferred income taxes	175	169	32
Impact of changes in tax rates on deferred taxes	-	59	2
Deferred income taxes	**175**	**228**	**34**
TOTAL TAX EXPENSE PER INCOME STATEMENT	**(1,917)**	**(1,476)**	**(1,484)**
Tax on items recognized in equity	**(102)**	**(58)**	**(3)**

The effective tax rate is as follows:

(EUR millions)	2012	2011	2010
Profit before tax	5,764	4,907	4,708
Total income tax expense	(1,917)	(1,476)	(1,484)
EFFECTIVE TAX RATE	**33.3%**	**30.1%**	**31.5%**

Total income tax expense for fiscal year 2012 includes, for an amount of 30 million euros, the impact of the exceptional contribution applicable in France from 2011 to 2014.

27.2. Analysis of net deferred tax on the balance sheet

Net deferred taxes on the balance sheet include the following assets and liabilities:

(EUR millions)	2012	2011	2010
Deferred tax assets	919	761	699
Deferred tax liabilities	(4,727)	(4,673)	(4,097)
NET DEFERRED TAX ASSET (LIABILITY)	**(3,808)**	**(3,912)**	**(3,398)**

27.3. Analysis of the difference between the theoretical and effective income tax rates

The theoretical income tax rate, defined as the rate applicable in law to the Group's French companies, may be reconciled as follows to the effective income tax rate disclosed in the consolidated financial statements:

(percentage of income before tax)	2012	2011	2010
French statutory tax rate	**34.4**	**34.4**	**34.4**
Changes in tax rates	-	(1.3)	(0.1)
Differences in tax rates for foreign companies	(5.9)	(6.0)	(5.6)
Tax losses and tax loss carry forwards	0.1	0.2	0.4
Difference between consolidated and taxable income, and income taxable at reduced rates	4.4	2.5	1.9
Withholding taxes	0.3	0.3	0.5
EFFECTIVE TAX RATE OF THE GROUP	**33.3**	**30.1**	**31.5**

Since 2000, French companies have been subject to additional income tax, at a rate of 3.3% for 2010, 2011 and 2012, bringing the theoretical tax rate to 34.4% in each fiscal year.

27.4. Sources of deferred taxes

In the income statement:

(EUR millions)	2012	2011	2010
Valuation of brands	8	39	(68)
Other revaluation adjustments	6	(4)	4
Gains and losses on available for sale financial assets	(2)	(5)	3
Gains and losses on hedges of future foreign currency cash flows	(16)	16	8
Provisions for contingencies and losses [(a)]	-	10	26
Intercompany margin included in inventories	153	105	40
Other consolidation adjustments [(a)]	81	85	31
Losses carried forward	(55)	(18)	(10)
TOTAL	**175**	**228**	**34**

(a) Mainly tax-driven provisions, accelerated tax depreciation and finance leases.

In equity:

(EUR millions)	2012	2011	2010
Fair value adjustment of vineyard land	(28)	(11)	(71)
Gains and losses on available for sale financial assets	(5)	(97)	(22)
Gains and losses on hedges of future foreign currency cash flows	(50)	27	14
TOTAL	**(83)**	**(81)**	**(79)**

In the balance sheet:

(EUR millions)	2012 (b)	2011 (b)	2010 (b)
Valuation of brands	(3,961)	(3,977)	(3,072)
Fair value adjustment of vineyard land	(595)	(567)	(556)
Other revaluation adjustments	(368)	(365)	(361)
Gains and losses on available for sale financial assets	(150)	(145)	(48)
Gains and losses on hedges of future foreign currency cash flows	(24)	31	(1)
Provisions for contingencies and losses (a)	220	207	185
Intercompany margin included in inventories	600	430	323
Other consolidation adjustments (a)	422	394	59
Losses carried forward	48	80	73
TOTAL	**(3,808)**	**(3,912)**	**(3,398)**

(a) Mainly tax-driven provisions, accelerated tax depreciation and finance leases.
(b) Asset/(Liability).

27.5. Losses carried forward

As of December 31, 2012, for LVMH SA, unused tax loss carry forwards and tax credits, for which no deferred tax assets were recognized, had a potential positive impact on the future tax expense of 306 million euros (301 million euros in 2011, 290 million euros in 2010).

As of December 31, 2012, for Christian Dior, unused tax loss carry forwards were 167 million euros (277 million euros in 2011, 217 million euros in 2010).

As of December 31, 2012, all previously recognized tax losses had been used, i.e. 29 million euros. Deferred tax assets were recognized in the amount of 29 million euros as of both December 31, 2011 and December 31, 2010. Unused tax loss carry forwards for which no deferred tax assets were recognized had a potential impact on the future tax expense of 57 million euros.

27.6. Tax consolidation

- Tax consolidation agreements in France allow virtually all French companies of the Group to combine their taxable profits to calculate the overall tax expense for which only the parent company is liable.

  With effect from January 1, 2004, the entire Financière Agache tax consolidation group has been included in the tax consolidation group of Groupe Arnault SAS.

  This tax consolidation agreement led to a decrease in the current tax expense for the Group of 92 million euros in 2012, including 92 million euros for LVMH (142 million euros in 2011 and 115 million euros in 2010 for the Group).

- The application of other tax consolidation agreements, notably in the United States, led to current tax savings of 28 million euros in 2012 (52 million euros in 2011 and 82 million euros in 2010).

NOTE 28 – EARNINGS PER SHARE

	2012	2011	2010
Net profit, Group share *(EUR millions)*	**1,035**	**912**	**907**
Impact of diluting instruments on the subsidiaries *(EUR millions)*	(9)	(7)	(5)
NET PROFIT, DILUTED GROUP SHARE *(EUR millions)*	**1,026**	**905**	**902**
Average number of shares in circulation 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 PROFIT PER SHARE *(EUR)*	**326.53**	**287.72**	**286.14**
Average number of shares in circulation on which the above calculation is based	3,169,733	3,169,733	3,169,733
Dilution effect of stock option plans	-	-	-
AVERAGE NUMBER OF SHARES IN CIRCULATION AFTER DILUTION	**3,169,733**	**3,169,733**	**3,169,733**
DILUTED GROUP SHARE OF NET PROFIT PER SHARE *(EUR)*	**323.69**	**285.51**	**284.57**

NOTE 29 – PROVISIONS FOR PENSIONS, REIMBURSEMENT OF MEDICAL COSTS AND SIMILAR COMMITMENTS

29.1. Expense for the fiscal year

(EUR millions)	2012	2011	2010
Service cost	64	57	47
Impact of discounting	36	33	31
Expected return on plan assets	(25)	(24)	(19)
Amortization of actuarial gains and losses	9	5	6
Past service cost	1	2	2
Changes in regimes	(2)	(5)	-
TOTAL EXPENSE FOR THE PERIOD FOR DEFINED BENEFIT PLANS	**83**	**68**	**67**
Effective return on/(cost of) plan assets	56	(10)	24

29.2. Net recognized commitment

(EUR millions)	2012	2011	2010
Benefits covered by plan assets	1,005	816	686
Benefits not covered by plan assets	144	156	146
Defined benefit obligation	**1,149**	**972**	**832**
Market value of plan assets	**(637)**	**(570)**	**(489)**
Actuarial gains and losses not recognized in the balance sheet	(220)	(122)	(78)
Past service cost not yet recognized in the balance sheet	(3)	(4)	(6)
Unrecognized items	**(223)**	**(126)**	**(84)**
NET RECOGNIZED COMMITMENT	**289**	**276**	**259**
Of which:			
Non-current provisions	300	290	267
Current provisions	14	12	10
Other assets	(25)	(26)	(18)
TOTAL	**289**	**276**	**259**

29.3. Breakdown of the change in net recognized commitment

(EUR millions)	Defined benefit obligation	Market value of plan assets	Unrecognized items	Net recognized commitment
As of December 31, 2011	**972**	**(570)**	**(126)**	**276**
Net expense for the period	101	(25)	7	83
Payments to beneficiaries	(66)	51	-	(15)
Contributions to plan assets	-	(59)	-	(59)
Contributions of employees	8	(8)	-	-
Changes in scope and reclassifications	9	(5)	-	4
Changes in regimes	(2)	-	2	-
Actuarial gains and losses: experience adjustments [(a)]	13	(31)	18	-
Actuarial gains and losses: changes in assumptions [(a)]	128	-	(128)	-
Translation adjustment	(14)	10	4	-
AS OF DECEMBER 31, 2012	**1,149**	**(637)**	**(223)**	**289**

(a) Gains/(Losses).

Actuarial gains and losses resulting from changes in assumptions related mainly to the decline in discount rates.

Actuarial gains and losses resulting from experience adjustments related to the fiscal years 2008 to 2011 amounted to:

(EUR millions)	2008	2009	2010	2011
Experience adjustments on the defined benefit obligation	(2)	(16)	(14)	(9)
Experience adjustments on the fair value of plan assets	96	(29)	(4)	(34)
ACTUARIAL GAINS AND LOSSES RESULTING FROM EXPERIENCE ADJUSTMENTS [(a)]	**94**	**(45)**	**(18)**	**(43)**

(a) (Gains)/Losses.

The actuarial assumptions applied to estimate commitments as of December 31, 2012 in the main countries where such commitments have been undertaken, were as follows:

	2012					2011					2010				
(as %)	France	United States	United Kingdom	Japan	Switzerland	France	United States	United Kingdom	Japan	Switzerland	France	United States	United Kingdom	Japan	Switzerland
Discount rate [(a)]	3.0	3.2	4.3	1.5	2.0	4.65	4.9	4.7	1.75	2.25	4.5	5.1	5.4	1.75	2.5
Average expected return on investments	4.0	7.0	4.0	4.0	3.5	4.0	7.75	5.0	4.0	4.0	4.0	7.75	6.0	4.0	4.0
Future rate of increase of salaries	3.0	4.0	3.8	2.0	2.5	3.0	4.0	3.8	2.0	2.5	3.0	4.0	4.2	2.0	2.5

(a) Discount rates were determined with reference to market yields of AA-rated corporate bonds at the year-end in the countries concerned. Bonds with maturities comparable to those of the commitments were used.

The average expected rate of return on investments by type of asset, based on which 2012 net expense was determined, is as follows by type of investment:

(as %)	2012
Shares	6.5
Bonds:	
- private issues	3.9
- public issues	2.1
Real estate, cash and other assets	2.3

The assumed rate of increase for medical expenses in the United States is 7.6% for 2012; then it is assumed to decline progressively as of 2013 to reach a rate of 4.5% in 2030.

A rise of 0.5% in the discount rate would result in a reduction of 69 million euros in the amount of the defined benefit obligation as of December 31, 2012; a decrease of 0.5% in the discount rate would result in a rise of 70 million euros.

29.4. Analysis of benefits

The breakdown of the defined benefit obligation by type of benefit plan is as follows:

(EUR millions)	2012	2011	2010
Retirement and other indemnities	189	157	134
Medical costs of retirees	48	45	46
Jubilee awards	14	12	11
Supplementary pensions	874	741	617
Early retirement indemnities	1	2	3
Other	23	15	21
DEFINED BENEFIT OBLIGATION	**1,149**	**972**	**832**

The geographic breakdown of the defined benefit obligation is as follows:

(EUR millions)	2012	2011	2010
France	377	314	312
Europe (excluding France)	433	370	268
United States	210	175	147
Japan	107	103	93
Asia (excluding Japan)	19	9	11
Other countries	3	1	1
DEFINED BENEFIT OBLIGATION	**1,149**	**972**	**832**

The main components of the Group's net commitment for retirement and other defined benefit obligations as of December 31, 2012 are as follows:

- in France, these commitments include the commitment to 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 their three highest amounts of annual remuneration; they also include retirement indemnities and jubilee 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), the main commitments concern pension plans, set up in the United Kingdom by certain Group companies, in Switzerland, participation by Group companies in the mandatory Swiss occupational pension plan, the LPP (Loi pour la prévoyance professionnelle), as well as the TFR (Trattamento di Fine Rapporto) in Italy, 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 plans or systems for the reimbursement of medical expenses of retirees set up by certain Group companies.

29.5. Analysis of related plan assets

The breakdown of market value of plan assets by type of investment is as follows:

(as %)	2012	2011	2010
Shares	35	39	45
Bonds:			
- private issues	29	27	23
- public issues	18	15	18
Real estate, cash and other assets	18	19	14
MARKET VALUE OF RELATED PLAN ASSETS	**100**	**100**	**100**

These assets do not include any real estate assets operated by the Group nor any LVMH or Christian Dior shares for significant amounts.

The additional sums that will be paid into the funds to build up these assets in 2013 are estimated at 77 million euros.

NOTE 30 – OFF BALANCE SHEET COMMITMENTS

30.1. Purchase commitments

(EUR millions)	2012	2011	2010
Grapes, wines and eaux-de-vie	1,012	1,019	1,139
Other purchase commitments for raw materials	80	84	67
Industrial and commercial fixed assets	205	154	168
Investments in joint venture shares and non-current available for sale financial assets	108	171	181

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 year-end prices and estimated production yields.

As of December 31, 2012, the maturity schedule of these commitments is as follows:

(EUR millions)	Less than one year	From one to five years	More than five years	Total
Grapes, wines and eaux-de-vie	268	681	63	1,012
Other purchase commitments for raw materials	75	5	-	80
Industrial and commercial fixed assets	107	81	17	205
Investments in joint venture shares and non-current available for sale financial assets	10	69	29	108

30.2. Lease and similar commitments

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 minimum portion of commitments in respect of such operating lease or concession contracts over the irrevocable period of the contracts were as follows as of December 31, 2012:

(EUR millions)	2012	2011	2010
Less than one year	1,354	1,158	943
One to five years	3,380	2,977	2,338
More than five years	1,614	1,300	1,049
COMMITMENTS GIVEN FOR OPERATING LEASES AND CONCESSIONS	**6,348**	**5,435**	**4,330**
Less than one year	15	19	20
One to five years	25	30	42
More than five years	1	1	5
COMMITMENTS RECEIVED FOR SUB-LEASES	**41**	**50**	**67**

In addition, the Group may enter into operating leases or concession contracts including variable payment amounts. For example, in June 2012, DFS was granted three additional five-year concessions at Hong Kong International Airport. The concession agreement provides for the payment of variable concession fees, calculated in particular on the basis of the number of passengers passing through the airport. On the basis of an estimate of this number of passengers at the signing date of the agreement, the total amount of these fees in respect of a calendar year would be about 300 million euros.

30.3 Collateral and other guarantees

As of December 31, 2012, these commitments break down as follows:

(EUR millions)	2012	2011	2010
Securities and deposits	55	49	46
Other guarantees	797	851	764
GUARANTEES GIVEN	**852**	**900**	**810**
GUARANTEES RECEIVED	**19**	**28**	**25**

Maturity dates of these commitments are as follows:

(EUR millions)	Less than one year	From one to five years	More than five years	Total
Securities and deposits	13	28	14	55
Other guarantees	310	478	9	797
GUARANTEES GIVEN	**323**	**506**	**23**	**852**
GUARANTEES RECEIVED	**15**	**1**	**3**	**19**

Since fiscal year 2011, in connection with the overall management of the Group's financing and cash management, two companies of 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.

30.4 Contingent liabilities and outstanding litigation

As part of its day-to-day management, the Group is party to various legal proceedings concerning brand rights, the protection of intellectual property rights, the set-up of selective retailing networks, licensing agreements, employee relations, tax audits and other areas relating to its business. The Group believes that the provisions recorded in the balance sheet in respect of these risks, litigation or disputes, known or outstanding at year-end, are sufficient to avoid its consolidated financial net worth being materially impacted in the event of an unfavorable outcome.

30.5 Other commitments

The Group is not aware of any significant off balance sheet commitments other than those described above.

NOTE 31 – RELATED PARTY TRANSACTIONS

31.1. Relations of the Financière Agache group with the Arnault group

The Financière Agache group is consolidated in the accounts of Groupe Arnault SAS.

Groupe Arnault SAS provides assistance to the Financière Agache group in the areas of development, engineering, corporate and real estate law. In addition, the Arnault group leases office premises to the Financière Agache group.

The Arnault group leases office space from the Financière Agache group and the latter also provides the Arnault group with various forms of administrative assistance.

Transactions between the Financière Agache group and the Arnault group may be summarized as follows:

(EUR millions)	2012	2011	2010
• Services billed by the Arnault group to the Financière Agache group	(10)	(10)	(10)
Amount payable outstanding as of December 31	(2)	(2)	(2)
• Financial interest billed by the Arnault group to the Financière Agache group	(10)	(7)	(4)
Balance of the Financière Agache group's current account liabilities	(352)	(332)	(236)
• Tax consolidation expense	(14)	(11)	(7)
Balance of tax consolidation accounts	(3)	(4)	(3)
• Services billed by the Financière Agache group to the Arnault group	2	2	3
Amount receivable outstanding as of December 31	-	-	-
• Financial interest by the Financière Agache group to the Arnault group	44	48	31
Balance of the Financière Agache group's current account assets	1,197	1,644	1,746

31.2. Relations of the Financière Agache group with Diageo

Moët Hennessy SNC and Moët Hennessy International SAS (hereafter referred to as "Moët Hennessy") are the holding companies for LVMH's Wines and Spirits businesses, with the exception of Château d'Yquem, Château Cheval Blanc and certain Champagne vineyards. Diageo holds a 34% stake in Moët Hennessy. In 1994, at the time when Diageo acquired this 34% stake, an agreement was concluded between Diageo and LVMH for the apportionment of holding company expenses between Moët Hennessy and the other holding companies of the LVMH group.

Under this agreement, Moët Hennessy assumed 19% of shared expenses in 2012 (19% in 2011 and 20% in 2010) representing an amount of 14 million euros in 2012 (20 million euros in 2011 and 9 million in 2010).

31.3. 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)	2012	2011	2010
Gross compensation, employers' charges and benefits in kind	11	13	11
Post-employment benefits	1	1	1
Other long term benefits	-	-	-
End of contract indemnities	-	-	-
Stock option and similar plans	5	5	4
TOTAL	**17**	**19**	**16**

The commitment recognized as of December 31, 2012 for post-employment benefits, net of related financial assets was 4 million euros (2 million euros as of December 31, 2011 and 1 million euros as of December 31, 2010).

NOTE 32 – SUBSEQUENT EVENTS

No significant subsequent events occurred between December 31, 2012 and March 27, 2013, the date on which the financial statements were approved for publication by the Board of Directors.

Consolidated companies

Companies	Registered office	Percentage interest
Financière Agache SA	**Paris, France**	**Parent company**
Christian Dior SA and its subsidiaries	Paris, France	69%
LVMH SA and its subsidiaries	Paris, France	30%
Sémyrhamis SAS	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	Brussels, Belgium	40%

(a) Accounted for using the equity method.

7. Statutory Auditors' report on the consolidated financial statements

To the Shareholders,

In accordance with our appointment as Statutory Auditors by your Shareholders' Meeting, we hereby report to you, for the year ended December 31, 2012, on:

- the audit of the accompanying consolidated financial statements of the company Financière Agache,
- the justification of our assessments,
- the specific verification required by law.

These consolidated financial statements have been approved by your Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

1. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2012, and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

2. Justification of our assessments

In accordance with the requirements of Article L. 823-9 of the French Commercial Code (Code de commerce) relating to the justification of our assessments, we bring to your attention the following matters:

- the valuation of brands and goodwill has been tested under the method described in Note 1.12 to the consolidated financial statements. Based on the aforementioned, we have assessed the appropriateness of the methodology applied based on certain estimates and have reviewed the data and assumptions used by the Group to perform these valuations.
- we have verified that Note 1.10 to the consolidated financial statements provides an appropriate disclosure on the accounting treatment of commitments to purchase minority interests, as such treatment is not provided for by the IFRS framework as adopted by the European Union.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

3. Specific verification

As required by law we have also verified in accordance with professional standards applicable in France the information presented in the Group's Management Report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Paris-La Défense, April 5, 2013
The Statutory Auditors

MAZARS	ERNST & YOUNG et Autres
Simon BEILLEVAIRE	Olivier BREILLOT

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. 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

1. Balance sheet

Assets

(EUR thousands)	Notes	12/31/2012 Gross	12/31/2012 Depreciation, amortization and provisions	12/31/2012 Net	12/31/2011 Net
Intangible assets		**-**	**-**	**-**	**-**
Land		921	-	921	923
Buildings		726	438	288	317
Other tangible fixed assets		-	-	-	-
Property, plant and equipment	2.1/2.2	**1,647**	**438**	**1,209**	**1,240**
Subsidiaries and equity investments	2.5	4,455,126	83,437	4,371,689	4,320,027
Receivables from subsidiaries and equity investments	2.5	660,578	54,357	606,221	595,433
Long term investments		8	-	8	8
Loans	2.3	11	-	11	14
Other non-current financial assets	2.3	448	-	448	448
Non-current financial assets	2.1/2.2/2.8	**5,116,171**	**137,794**	**4,978,377**	**4,915,930**
NON-CURRENT ASSETS	2.1/2.2	**5,117,818**	**138,232**	**4,979,586**	**4,917,170**
Trade accounts receivable	2.3/2.5	49	26	23	70
Financial accounts receivable	2.3/2.5	735,772	19,159	716,613	1,121,379
Other receivables	2.3/2.5/2.7	868	45	823	2,022
Short term investments	2.5/2.7	154,778	1,257	153,521	114,189
Cash and cash equivalents		36,327	-	36,327	20,318
CURRENT ASSETS	2.8	**927,794**	**20,487**	**907,307**	**1,257,978**
Prepaid expenses	2.3	1,166	-	1,166	1,318
Bond redemption premiums		-	-	-	8
TOTAL ASSETS		**6,046,778**	**158,719**	**5,888,059**	**6,176,474**

Liabilities and equity

(EUR thousands)	*Notes*	12/31/2012	12/31/2011
Share capital (fully paid up)	*2.4*	50,774	50,774
Share premium, merger and contribution accounts		441,946	441,946
Legal reserve		5,077	5,077
Regulated reserves		55,695	55,695
Other reserves		540,432	540,432
Retained earnings		2,461,721	2,388,320
Profit for the year		**406,282**	**469,618**
Regulated provisions		-	-
Interim dividends		(364,935)	(396,669)
EQUITY	*2.4*	**3,596,992**	**3,555,193**
PROVISIONS FOR CONTINGENCIES AND LOSSES	*2.5*	**14,667**	**18,898**
Bonds		512,719	688,727
Bank loans and borrowings	*2.6*	167,049	470,428
Miscellaneous loans and borrowings		1,587,993	1,434,343
Borrowings		**2,267,761**	**2,593,498**
Trade accounts payable	*2.7*	326	332
Tax and social security liabilities		2,014	2,175
Operating liabilities		**2,340**	**2,507**
Other liabilities	2.7	5,995	5,985
LIABILITIES	*2.6/2.8*	**2,276,096**	**2,601,990**
Prepaid income	*2.6*	304	393
TOTAL LIABILITIES AND EQUITY		**5,888,059**	**6,176,474**

2. Income statement

(EUR thousands)	**12/31/2012**	**12/31/2011**
Net revenue	**-**	**-**
Reversals of provisions, depreciation and amortization	-	-
Expense transfers	-	-
Other income	193	187
Operating income	**193**	**187**
Other purchases and external expenses	872	971
Taxes, duties and similar levies	144	71
Wages and salaries	39	43
Social security expenses	39	32
Depreciation and amortization	25	24
Current asset provision allocations	-	-
Other expenses	82	151
Operating expenses	**1,201**	**1,292**
OPERATING PROFIT (LOSS)	**(1,008)**	**(1,105)**

(EUR thousands)	*Notes*	12/31/2012	12/31/2011
Income from subsidiaries and equity investments		430,655	509,139
Income from other securities and non-current investments		-	-
Other interest and similar income		59,799	89,941
Reversals of provisions and expenses transferred	*2.5*	15,218	2,869
Net foreign exchange gains		-	979
Net income on sales of short term investments		641	767
Net financial income		**506,313**	**603,695**
Depreciation, amortization and provisions	*2.5*	20,230	39,405
Interest and similar expenses		68,486	87,130
Net foreign exchange losses		4,052	-
Net expenses on sales of short term investments		-	874
Financial expenses		**92,768**	**127,409**
NET FINANCIAL INCOME (EXPENSE)	*2.9*	**413,545**	**476,286**
RECURRING PROFIT		**412,537**	**475,181**
Exceptional income from management transactions		-	-
Exceptional income from capital transactions		30	860
Reversals of provisions and expenses transferred	*2.5*	-	-
Exceptional income		**30**	**860**
Exceptional expenses on management transactions		-	3,802
Exceptional expenses on capital transactions		6	203
Provision allocations		-	-
Exceptional expenses		**6**	**4,005**
EXCEPTIONAL INCOME (EXPENSE)	*2.1*	**24**	**(3,145)**
Income taxes	*2.11*	**6,279**	**2,418**
NET PROFIT		**406,282**	**469,618**

3. Company results over the last five fiscal years

(EUR thousands)	2008	2009	2010	2011	2012
1. Share capital at fiscal year-end					
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	(6)	-	-	-	-
Profit before taxes, depreciation, amortization and movements in provisions	87,432	203,329	189,524	508,596	417,598
Income taxes	-	-	-	2,418	6,279
Profit after taxes, depreciation, amortization and movements in provisions	3,030	222,637	195,013	469,618	406,282
Profit distributed as dividends	22,594	63,467	79,334	396,669	364,935 (a)
3. Earnings per share *(EUR)*					
Earnings per share before taxes, depreciation, amortization and movements in provisions	27.55	64.07	59.72	160.27	131.60
Earnings per share after taxes, depreciation, amortization and movements in provisions	0.95	70.16	61.45	147.99	128.03
Gross dividend distributed per share (b)	**7.12**	**20.00**	**25.00**	**125.00**	**115.00** (a)
4. Employees					
Average number of employees	4	2	1	1	1
Total payroll	1,247	508	40	43	39
Amount paid in respect of social security	506	175	32	32	39

(a) Board of Directors' proposal for 2012.
(b) Excludes the impact of tax regulations applicable to the beneficiaries.

4. Notes to the parent company financial statements

Significant events

Financière Agache maintained its direct and indirect ownership interests in its subsidiaries Christian Dior and LVMH.

In 2012, the total amount of dividends received from subsidiaries and equity investments was 431 million euros.

The net financial income was 413.5 million euros.

Net profit was 406.3 million euros.

1. ACCOUNTING POLICIES AND METHODS

The parent company financial statements have been prepared in accordance with Regulation 99-03 dated April 29, 1999 of the Comité de la réglementation comptable (Accounting Regulations Committee).

General accounting conventions have been applied observing the principle of prudence in conformity with the following basic assumptions: going concern, consistency of accounting methods, non-overlap of financial periods, and in conformity with the general rules for preparation and presentation of parent company financial statements.

The accounting items recorded have been evaluated using the historical cost method, with the exception of property, plant and equipment 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 as well as other non-current financial assets are recorded at the lower of their acquisition cost or their value in use. Impairment is recorded if their value in use is lower than their acquisition cost.

The value in use of directly and indirectly held subsidiaries and equity investments in listed companies is based on an overall position of majority control, stock market valuation, and the portion of the equity of these companies within consolidated equity, once restated to take into account the Group's accounting policies.

The value in use of other equity investments in unlisted companies is generally determined on the basis of the portion of the equity of these companies within consolidated equity, once restated to take into account the Group's accounting policies.

In the event of partial investment sale, any gains or losses are recognized within net financial income/expense and calculated according to the weighted average cost method.

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. Accounts receivable and liabilities

Accounts receivable and liabilities are recognized at their face value. An impairment provision 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 valued at their acquisition cost. An impairment provision is recorded if their acquisition value is greater than their market value determined as follows:

- listed securities: average listed share price during the last month of the year;
- other securities: estimated realizable value or liquidation value.

Gains or losses on the disposal of short term investments are determined using the FIFO method.

1.5. Provisions for contingencies and losses

The Company establishes a provision for definite and likely contingencies and losses at the end of each financial period, observing the principle of prudence.

1.6. Foreign currency transactions

During the period, foreign currency transactions are recorded at the rates of exchange in euros prevailing on the transaction dates.

Liabilities, accounts receivable, liquid funds, and short term investments in foreign currencies are revalued on the balance sheet at 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 liabilities and accounts receivable in foreign currencies at the fiscal year-end that cannot be regarded as elements of the same overall foreign exchange position is recorded in the "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 business, the Company applies the following policies:

- in the event of a partial investment sale, any gains or losses are recognized within net financial income/expense and calculated according to the weighted average cost method;
- net gains and losses on sales of short term investments comprise expenses and income associated with sales.

1.8. Gains and losses on options and futures 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 conformity with the recommendations of the Compagnie nationale des Commissaires aux comptes (National Board of Auditors), interim dividends are recorded as a deduction from equity.

2. ADDITIONAL INFORMATION RELATING TO THE BALANCE SHEET AND INCOME STATEMENT

2.1. Non-current assets

(EUR thousands)	Gross value as of 01/01/2012	Increases: Acquisitions, creations, transfers	Decreases: Disposals, transfers	Gross value as of 12/31/2012
Intangible assets	**-**	**-**	**-**	**-**
Land	923	-	2	921
Buildings, fixtures and fittings	735	-	9	726
Miscellaneous general installations, fixtures and fittings	-	-	-	-
Transport equipment	-	-	-	-
Office furniture and equipment	-	-	-	-
Property, plant and equipment	**1,658**		**11**	**1,647**
Subsidiaries and equity investments	4,395,374	59,752	-	4,455,126
Receivables from subsidiaries and equity investments	660,672	1,501	1,595	660,578
Long term investments	8	-	-	8
Loans	14	-	3	11
Other non-current financial assets	448	-	-	448
Non-current financial assets	**5,056,516**	**61,253**	**1,598**	**5,116,171**
TOTAL	**5,058,174**	**61,253**	**1,609**	**5,117,818**

The 59.8 million euro increase in investments corresponds to a capital increase by a subsidiary.

Receivables from subsidiaries and equity investments, in the gross amount of 661 million euros as of December 31, 2012, consist of loans that are medium term on inception granted to the subsidiaries of Financière Agache.

2.2. Depreciation, amortization and impairment of fixed assets

(EUR thousands)	Position and changes in the period			
	Depreciation, amortization and impairment 01/01/2012	Increases charges	Decreases reversals	Depreciation, amortization and impairment 12/31/2012
Intangible assets	**-**	**-**	**-**	**-**
Buildings, fixtures and fittings	418	25	5	438
Miscellaneous general installations, fixtures and fittings	-	-	-	-
Office furniture and equipment	-	-	-	-
Property, plant and equipment	**418**	**25**	**5**	**438**
Subsidiaries and equity investments	75,347	8,090	-	83,437
Receivables from subsidiaries and equity investments	65,239	-	10,882	54,357
Long term investments and loans	-	-	-	-
Non-current financial assets	**140,586**	**8,090**	**10,882**	**137,794**
TOTAL	**141,004**	**8,115**	**10,887**	**138,232**

Charges and reversals to provisions of non-current financial assets reflect the level of net assets of the subsidiaries concerned.

2.3. Loans and accounts receivable by maturity

(EUR thousands)	Gross amount	Up to 1 year	More than 1 year
Receivables from subsidiaries and equity investments	660,578	376,275	284,303
Loans and other non-current financial assets	459	2	457
Trade accounts receivable	49	49	-
Financial accounts receivable	735,772	735,772	-
Other receivables	868	868	-
Prepaid expenses	1,166	1,166	-
TOTAL	**1,398,892**	**1,114,132**	**284,760**

Receivables from subsidiaries and equity investments

These receivables correspond to loans that are medium term on inception (with accrued interest of 1.3 million euros) granted to the subsidiaries of Financière Agache.

Financial accounts receivable

Financial accounts receivable include cash advances made to Group companies in connection with the cash pooling system or under bilateral agreements.

As of December 31, 2012, accrued interest relating to financial accounts receivable came to 2.0 million euros.

Other receivables

Other receivables include in particular interest receivable on swaps related to borrowings.

Prepaid expenses and accrued income

As of December 31, 2012, prepaid expenses mainly concern interest deducted on commercial paper and commissions for banking commitments.

2.4. Equity

A. Share capital

The share capital comprises 3,173,352 shares, each with a par value of 16 euros, of which 3,167,946 shares carry double voting rights.

B. Changes in equity

(EUR thousands)	
Equity as of 12/31/2011 (prior to appropriation of net profit)	**3,555,193**
Net profit	406,282
Dividends paid	-
Interim dividends	(364,935)
Change in regulated reserves	-
Change in retained earnings	452
Equity as of 12/31/2012 (prior to appropriation of net profit)	**3,596,992**

2.5. Impairment and provisions

(EUR thousands)	Amount 01/01/2012	Increases	Decreases	Amount 12/31/2012
Impairment expense				
Subsidiaries and equity investments	75,347	8,090	-	83,437
Receivables from subsidiaries and equity investments	65,239	-	10,882	54,357
Trade accounts receivable	26	-	-	26
Financial and other receivables	7,338	11,866	-	19,204
Other short term investments	1,005	266	14	1,257
Subtotal	**148,955**	**20,222**	**10,896**	**158,281**
Provisions for contingencies and losses				
Litigation and miscellaneous risks	18,898	-	4,231	14,667
Subtotal	**18,898**	**-**	**4,231**	**14,667**
TOTAL	**167,853**	**20,222**	**15,127**	**172,948**
Amortization of the bond redemption premium	-	8	91	-
Of which:				
Financial	-	20,230	15,218	-
Exceptional	-	-	-	-

Impairment and provision charges for "Subsidiaries and equity investments" (8.1 million euros), for "Financial and other receivables" (11.9 million euros) and reversals of provisions for "Receivables from subsidiaries and equity investments" (10.8 million euros) reflect the net asset position of the subsidiaries concerned.

Net provision charges for "Litigation and miscellaneous risks" amounted to 4.2 million euros.

2.6. Liabilities by maturity

Liabilities *(EUR thousands)*	Gross amount	Up to 1 year	From 1 to 5 years	More than 5 years
Bonds	512,719	12,719	500,000	-
Bank loans and borrowings	167,049	167,049	-	-
Miscellaneous loans and borrowings	1,587,993	1,587,993	-	-
Trade accounts payable	326	326	-	-
Tax and social security liabilities	2,014	2,014	-	-
Other liabilities	5,995	5,995	-	-
Prepaid income	304	212	92	-
TOTAL	**2,276,400**	**1,776,308**	**500,092**	**-**

In October 2012, a 275 million euro bond was issued with an October 2017 maturity.

Bank loans and borrowings comprise short term borrowings in the amount of 167 million euros.

Miscellaneous loans and borrowings include:

- negotiable debt securities outstanding for 723 million euros;
- cash advances made by Group companies to Financière Agache for 865 million euros.

As is normal practice for credit facilities, Financière Agache has signed commitments to maintain a specific percentage interest and voting rights for certain of its subsidiaries and to maintain a specific ratio of assets to net financial debt. The current level of this ratio ensures that the Company has genuine financial flexibility with regard to this commitment.

2.7. Accrued expenses and prepaid income

(EUR thousands)	Accrued expenses Accrued income	Prepaid income Prepaid expenses
Current assets		
Short term investments	-	161
Other receivables	-	754
Prepaid expenses		1,166
Liabilities		
Borrowings	12,961	-
Trade accounts payable	250	-
Tax and social security liabilities	9	-
Other liabilities	1,512	-
Prepaid income	304	

2.8. Items involving related companies

(EUR thousands)	Items involving companies related [(a)]	other [(b)]
Non-current assets		
Subsidiaries and equity investments	4,455,126	-
Receivables from subsidiaries and equity investments	660,578	-
Current assets		
Trade accounts receivable	-	-
Financial receivables	735,772	-
Other receivables	-	-
Short term investments	25,433	-
Prepaid expenses	-	-
Liabilities		
Borrowings	865,317	-
Trade accounts payable	1	-
Other liabilities	3,861	-
Prepaid income	120	-

(a) Companies that can be fully consolidated into one consolidated unit (e.g., parent company, subsidiaries, consolidated affiliates).
(b) Percentage control between 10% and 50%.

Income statement items

Expenses and income involving related companies, or companies with which the Company has an equity connection, break down as follows:

(EUR thousands)	Income	Expenses
Income from subsidiaries and equity investments	430,655	-
Interest and other	57,961	20,731

2.9. Financial income and expenses

As of December 31, 2012, net financial income was 413.5 million euros. This item mainly includes:

- dividends from subsidiaries and equity investments of 430.7 million euros;
- net gains on sales of short term investments of 7.9 million euros;
- net provision charges for subsidiaries of 9.1 million euros;
- net financial expenses related to borrowings of 16.3 million euros.

2.10. Exceptional income and expenses

Exceptional income *(EUR thousands)*	**12/31/2012**	**12/31/2011**
Miscellaneous revenue from management transactions	-	-
Income from capital transactions	30	860
Reversals of provisions and expenses transferred	-	-
TOTAL	**30**	**860**

Exceptional expenses *(EUR thousands)*	**12/31/2012**	**12/31/2011**
Exceptional expenses from management transactions	-	3,802
Expenses from capital transactions	6	203
Provision charges	-	-
TOTAL	**6**	**4,005**

2.11. Income tax

	12/31/2012			**12/31/2011**		
(EUR thousands)	**Before tax**	**Tax**	**After tax**	**Before tax**	**Tax**	**After tax**
Recurring profit	412,537	-	412,537	475,181	-	475,181
Exceptional income	24	(6,279)	(6,255)	(3,145)	(2,418)	(5,563)
TOTAL	**412,561**	**(6,279)**	**406,282**	**472,036**	**(2,418)**	**469,618**

2.12. Tax position

Since 2004, Financière Agache has been a member of the tax 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.

3. OTHER INFORMATION

3.1. Financial commitments

Commitments relating to forward financial instruments

Hedging instruments

Financière Agache uses various interest rate hedging instruments on its own behalf that comply with its investment policy. The aim of this policy is to hedge against possible changes in interest rates on existing debt, while ensuring that speculative positions are not taken.

The types of instruments outstanding as of December 31, 2012, the underlying amounts (excluding short term instruments), and market values break down as follows:

	Amount of underlying Maturity			Market value
(EUR thousands)	**2015**	**2016**	**2017**	**12/31/2012**
Swaps	125,000	75,000	275,000	(8,315)

Foreign exchange hedging

In connection with its financing and foreign exchange hedging policy, Financière Agache carried out foreign exchange hedging transactions for a total amount of 358 million dollars.

Commitments given

- Financière Agache served as guarantor for financing granted to some of its subsidiaries in the total amount of 1,508 million euros.
- In addition, securities were deposited with a financial institution, without being guaranteed, in connection with the establishment of a 300 million euro line of credit (see Note 2.6).
- In connection with the disposal of long term investments, subsidiaries of Financière Agache granted the customary asset and liability guarantees and Financière Agache stood security for the commitments of these subsidiaries.

Commitments received

Since fiscal year 2011, in connection with the overall management of the Group's financing and to enhance the efficiency of its cash management, two companies of 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.

3.2. Compensation of management bodies

The gross amount of compensation of management bodies paid in 2013 to members of the management bodies for the 2012 fiscal year was 82.3 thousand euros.

3.3. Statutory Auditors' fees

	Ernst & Young et Autres		Mazars	
	2012	**2011**	**2012**	**2011**
(EUR thousands)	**Amount**	**Amount**	**Amount**	**Amount**
Statutory Audit	98	96	98	96
Other services relating directly to the Statutory Audit assignment	2	4	5	7
TOTAL	**100**	**100**	**103**	**103**

3.4. Identity of the company consolidating the accounts of Financière Agache

Registered office

Groupe Arnault SAS: 41 avenue Montaigne – 75008 PARIS.

3.5. Additional information relating to equity investments and short term investments

List of subsidiaries and investments

(EUR thousands)	Equity	% share capital held	Profit/ loss as of 12/31/2012
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	428	100.00%	(2)
Coromandel	21,303	100.00%	(659)
Montaigne Services	18	99.90%	3
Financière Agache Private Equity	1,239	100.00%	11
Sémyrhamis	4,064,851	100.00%	415,873
Markas Holding	1,577	100.00%	(52)
Westley International	4,746	100.00%	(8,014)
2. Investments (between 10% and 50% of the share capital held by the company)			
3. Other investments			
Christian Dior	3,018,500	8.35%	311,413 (a)(b)
LVMH	10,637,957	1.58%	1,666,669 (b)
Foreign subsidiary	115,372	40.36%	80,880
B. Other (securities whose gross value does not exceed 1% of the share capital)			
French subsidiaries	110		(96)

(a) Excluding securities categorized under short term investments.
(b) Given the difference in the financial year-end date of Christian Dior, the accounting data provided are those of April 30 2012.

Information concerning non-current investments of the "TIAP" portfolio

Not significant.

Information on short term investments

(EUR thousands)	Net value 12/31/2012
Treasury shares	28,433
SICAV, FCP and FCPR funds	-
Certificates of deposit, commercial paper, treasury bills	20,002
Hedge funds and private equity funds	2,529
Term deposits	102,557
SHORT TERM INVESTMENTS	**153,521**

5. Statutory Auditors' report on the parent company financial statements

To the Shareholders,

In accordance with our appointment as Statutory Auditors by your Shareholders' Meeting, we hereby report to you, for the year ended December 31, 2012, on:

- the audit of the accompanying financial statements of Financière Agache,
- the justification of our assessments,
- the specific procedures and disclosures required by law.

The financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements, based on our audit.

1. Opinion on the financial statements

We conducted our audit in accordance with professional practice standards applicable in France. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, using sample testing techniques or other selection methods, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made, as well as evaluating the overall financial statements presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position and the assets and liabilities of the Company as of December 31, 2012 and the results of its operations for the year then ended in accordance with accounting principles generally accepted in France.

2. Justification of our assessments

In accordance with Article L. 823-9 of the French Commercial Code (Code de commerce) relating to the justification of our assessments, we bring the following matters to your attention:

Note 1.2 of the section "Accounting policies" of the notes describes the accounting principles and methods applicable to long-term investments. As part of our assessment of the accounting policies implemented by your Company, we have verified the appropriateness of the above-mentioned accounting methods described in this Note and that of the disclosures in the notes to the financial statements, and have ascertained that they were properly applied.

These assessments were performed as part of our audit approach for the financial statements taken as a whole and therefore contributed to the expression of our opinion in the first part of this report.

3. Specific procedures and disclosures

We have also performed the other specific procedures required by law, in accordance with professional practice standards applicable in France.

We have no matters to report regarding the fair presentation and consistency with the financial statements of the information given in the Management Report of the Board of Directors and the documents addressed to the shareholders in respect of the financial position and the financial statements.

Paris-La Défense, April 5, 2013
The Statutory Auditors

MAZARS	**ERNST & YOUNG et Autres**
Simon BEILLEVAIRE	Olivier BREILLOT

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

Fees paid in 2012 to the Statutory Auditors

	Ernst & Young et Autres				Mazars			
	2012		2011		2012		2011	
(EUR thousands, excluding VAT)	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Audit								
Statutory Audit, certification, audit of the individual company and consolidated financial statements:								
• Financière Agache	98	1	96	1	98	3	96	4
• Consolidated subsidiaries	13,469 [(a)]	74	9,459	64	3,768 [(a)]	96	2,363	96
Other services relating directly to the Statutory Audit assignment:								
• Financière Agache	2	-	4	-	5	-	7	-
• Consolidated subsidiaries	840	5	1,622 [(b)]	11	40	1	4	-
Subtotal	**14,409**	**80**	**11,181**	**76**	**3,911**	**100**	**2,469**	**100**
Other services provided by the firms to consolidated subsidiaries								
• Legal, tax, employee-related [(c)]	3,121	17	2,837	19	-	-	-	-
• Other	611	3	738	5	-	-	-	-
Subtotal	**3,732**	**20**	**3,575**	**24**	**-**	**-**	**-**	**-**
TOTAL	**18,141**	**100**	**14,756**	**100**	**3,911**	**100**	**2,469**	**100**

(a) Of which, respectively, 3,624 thousand euros (Ernst & Young et Autres) and 343 thousand euros (Mazars) related to the change in fiscal year-end date of Christian Dior SA and some of its subsidiaries.
(b) The amount paid in 2011 included services in relation with the post-acquisition audits of Bulgari and Ile de Beauté.
(c) This mainly relates to tax advisory services performed outside France, to ensure that the Group's subsidiaries and expatriates meet their local tax declaration obligations.

Statement of 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 5 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 25, 2013

Florian OLLIVIER

Chairman and Chief Executive Officer

Design and production: Agence Marc Praquin

FINANCIERE AGACHE

41 avenue Montaigne – Paris 8e