LVMH

LETTER TO SHAREHOLDERS
MARCH 2017

TAKING A LONG VIEW

In 2016, amid economic and geopolitical uncertainties, our Group delivered record results. The creativity of our Maisons, the quest for excellence that inspires them, and their entrepreneurial spirit are the keys to our success.

Once again in 2016, strong creative momentum across each of the Group's businesses helped LVMH achieve a new year of growth. The exceptional performances of Louis Vuitton, Fendi and Moët Hennessy, Christian Dior's new market share gains in fragrances, TAG Heuer's return to robust growth, and Sephora's steady advances as it consolidates its position as the top selective beauty retailer in the United States: these are just some of the achievements made possible by the commitment and talent of our teams.

2016: A YEAR REPLETE WITH NEW PROJECTS AND INVESTMENTS

In 2016, the Group reaffirmed its ambition to be at the forefront of innovation and creativity. Louis Vuitton continues to demonstrate its talent for reinventing itself and creating surprises. The announcement of a collection of fragrances, after a seventy-year pause, was one of the year's most highly anticipated events. Louis Vuitton lived up to its promise, with the passion for perfection that imbues everything it does. The new fragrances were an immediate success, rapidly attracting a strong following despite only being available in Louis Vuitton stores.

In the fall of 2016, coinciding with this launch, both Christian Dior's and Louis Vuitton's Master Perfumers set up their creative ateliers in Grasse, the undisputed capital of perfume, at Les Fontaines Parfumées. This newly restored jewel allows our perfumers to work even more closely with rose and jasmine producers, and represents a new phase in the quest for excellence of our perfume houses, while enhancing the economic vitality of this exceptional region.

Bvlgari has also inaugurated a new jewelry manufacturing facility in the northern Italian town of Valenza, combining artisanal excellence with the latest advances in technology and environmental performance, and giving it the production capacity to meet its growth plans.

In Wines and Spirits, Ao Yun's first vintage, made in the Himalayan foothills, has crowned years of research to bring an audacious dream to reality. The singular qualities of this terroir and its expert, highly talented winemaking team leave no doubt that Ao Yun has what it takes to become China's finest wine.

Last but not least, we welcomed Rimowa into our Fashion and Leather Goods business group. Renowned worldwide for the quality, innovative spirit and design of its premium luggage, Rimowa – a jewel in that class of robust, dynamic, family-owned businesses known as the Mittelstand – thus becomes our first German Maison.

CONTINUITY TO SECURE THE FUTURE

Innovation was a core focus for all our businesses in 2016, but so was continuity, an essential investment for the future of our Maisons. Under the aegis of the Institut des Métiers d'Excellence (IME), our professional training organization dedicated to passing down our expertise to younger generations, which currently has several hundred apprentices, we created a new watchmaking program, the École d'Horlogerie LVMH. We take particular pride in the IME's accomplishments: many of its apprentices obtain the most coveted professional distinctions in their fields, and it is also a valuable talent pool for our Maisons.

At Hennessy, the Master Blender – a member of the same Cognac family that has served in this position for seven generations – will soon hand the reins over to his nephew, after an exceptional career. As he steps into his predecessor's shoes, the new Master Blender gains privileged access to Hennessy's wealth of knowledge about *eaux-de-vie*, spanning more than two centuries. He will be continuing this long tradition, the art of selecting and blending that gives Hennessy a style all its own.

Sharing and transmission were also the key threads tying together the third edition of our *Journées Particulières* open days. This event, during which access was provided to more than 50 sites that are usually closed to the public, enjoyed unprecedented popularity. We are pleased to have welcomed over 145,000 visitors to our workshops, allowing them to discover some of the treasures of our heritage and the virtuosity of our artisans, to attend fascinating talks and demonstrations given by creative team members, even acquiring hands-on experience in some of the techniques used in our professions. They thereby gained an understanding from the inside of the passion, talent and creativity driving all of the women and men behind our Group's success, and have no doubt taken away some extraordinary memories.

A DECISIVE STEP FOR THE FONDATION LOUIS VUITTON'S ARTISTIC PROJECT

Lastly, I would like to mention two major accomplishments by the Fondation Louis Vuitton during the year. The first of these was *Observatory of Light*, an installation by Daniel Buren, who offered an in-situ celebration of color over the building's glass sails, conceived in intimate dialogue with Frank Gehry's architectural language. The second was *Icons of Modern Art: The Shchukin Collection*, a landmark event paying tribute to one of the greatest collectors of the early 20th century, a visionary and exemplary patron of the art of his time, whose approach finds deep resonance with the Fondation Louis Vuitton's artistic project. The Shchukin Collection set a new attendance record for exhibitions in France, attracting more than 1,200,000 visitors in just over four months, indisputably placing the Fondation Louis Vuitton among the world's foremost cultural institutions.

In this same vein, I put forward a proposal, which has been accepted by the City of Paris, for another major cultural project: to convert the former Musée National des Arts et Traditions Populaires, located near the Fondation Louis Vuitton, into a center for craftsmanship, art and live performance. Frank Gehry will be giving this building designed by Jean Dubuisson a new lease on life.

PRUDENCE AND DETERMINATION FOR 2017

Despite strong global demand, geopolitical and monetary uncertainties are a significant part of the picture in early 2017. We are therefore viewing the coming months with prudence. There is a clear risk that the world economy will not be able to avoid a serious crisis in the coming months or years, given the imbalances of all kinds it currently faces. But come what may, we can count on the financial strength of LVMH, the appeal of our brands, and the agility of our teams to face the future head-on and further consolidate our global leadership position.

A FORWARD-LOOKING GROUP

LVMH is driven by its long-term vision. All of our avenues for progress – strengthening our supply chains and reinforcing our commitment to protect natural resources; attracting young, creative and talented individuals and giving them the means to fully realize their potential; exploring and conquering new realms in the digital economy; inventing the customer experience of tomorrow – as distinct from any unexpected obstacles that may appear in our paths, depend on the efforts of everyone, throughout the Group. Our teams have their sights set on the future as they continue to focus on the values that have built LVMH's success and that guarantee the longevity of our Maisons.

LVMH is a group with a family spirit. Creativity and innovation are central to everything we do. We are committed to continuing the artisanal traditions that form the cornerstone of all our Maisons. LVMH also aims to ensure that its development remains as sustainable as possible.

Taking a long view – that's what the LVMH Group is all about.

Bernard Arnault
Chairman and Chief Executive Officer

LVMH 2016 RECORD RESULTS

Key highlights from 2016 include:

- record revenue and profit from recurring operations,
- growth in the United States, Europe and Asia,
- good performance of Wines & Spirits in all regions,
- The success of both iconic and new products at Louis Vuitton, where profitability remains at an exceptional level,
- progress at Fendi,
- the sale of Donna Karan and the acquisition of Rimowa, leader in luggage of excellence,
- good momentum at Parfums Christian Dior driven by successful product innovations,
- market share gains at Bvlgari and TAG Heuer,
- growth at Sephora which strengthened its position in all its markets and in digital,
- free cash flow of €3,974 million, an increase of 8%,
- gearing of 12% at end of December 2016.

LVMH Moët Hennessy - Louis Vuitton, the world's leading luxury products group, recorded revenue of €37.6 billion in 2016, an increase of 5% over the previous year. Organic revenue growth was 6%.

In the fourth quarter, revenue increased by 9% compared to the same period of 2015. Organic growth was 8%. The American market remains on a good track as does Europe. Asia, excluding Japan, continued its good momentum.

Profit from recurring operations reached €7 billion in 2016, an increase of 6%, to which all business groups, apart from selective distribution, contributed. This result compares to 2015 which was itself a year of growth. Operating margin reached 18.7%. Group share of net profit was €3,981 million, representing growth of 11%.

CAUTIOUSLY CONFIDENT FOR 2017

Despite a climate of geopolitical and currency uncertainties, LVMH is well-equipped to continue its growth momentum across all business groups in 2017. The Group will maintain a strategy focused on developing its brands by continuing to build on strong innovation and a constant quest for quality in their products and their distribution.

Driven by the agility of its teams, their entrepreneurial spirit, the balance of its different businesses and geographic diversity, LVMH enters 2017 with caution but has, once again, set an objective of increasing its global leadership position in luxury goods.

REVENUE
€37,600m
+5% (1)

PROFIT FROM RECURRING OPERATIONS
€7,026m
+6%

CURRENT OPERATING MARGIN
18.7%

GROUP SHARE OF NET PROFIT
€3,981m
+11%

DIVIDEND PER SHARE
€4.00 (2)
+13%

FREE CASH FLOW
€3,974m (3)
+8%

NET FINANCIAL DEBT/ TOTAL EQUITY RATIO
12%

Further information can be found in the 2016 Reference Document.

(1) Organic growth of 6%.
(2) Amount proposed at the Shareholders' Meeting of April 13, 2017.
(3) Before available for sale financial assets and investments, transactions relating to equity and financing activities.

WINES & SPIRITS

GOOD YEAR WITH PROGRESS IN THE UNITED STATES AND REBOUND IN SHIPMENTS TO CHINA

Hennessy

The Wines & Spirits business group recorded an increase in organic revenue of 7%. On a reported basis, revenue growth was 5%. Profit from recurring operations increased by 10%.

With volumes up 3%, solid growth continues for champagne and prestige cuvées performed particularly well. Hennessy cognac enjoyed an excellent year with 10% volume growth. The American market is growing well and China saw better momentum after a tough 2015 due to destocking by distributors. Other spirits, Glenmorangie and Belvedere, continued their growth.

REVENUE
€4,835m
+7% (1)

PROFIT FROM RECURRING OPERATIONS
€1,504m
+10%

CURRENT OPERATING MARGIN
31.1%

(1) With comparable structure and exchange rates.

FASHION & LEATHER GOODS

GOOD PERFORMANCE OF LOUIS VUITTON, OTHER BRANDS STRENGTHENED THEIR POSITIONS

Louis Vuitton

The Fashion & Leather Goods business group recorded organic revenue growth of 4% in 2016. On a reported basis, revenue growth was 3%. Profit from recurring operations increased by 10%.

Louis Vuitton had a good year driven by the level of creativity across all its businesses. The continued success of its iconic product range and the strong demand for recent creations such as the new luggage designed by Marc Newson and the Louis Vuitton fragrances, all contributed to this growth. Fendi recorded robust growth crossing the symbolic revenue threshold of 1 billion euros during the year. Loro Piana continued to expand its distribution network and opened a flagship store in Paris. Céline, Loewe and Kenzo all continued to grow. Marc Jacobs continued to work on changes to its collection. Donna Karan was sold in December to the American G-III group. Rimowa, world leader in luggage of excellence, joined the LVMH group.

REVENUE
€12,775m
+4% (1)

PROFIT FROM RECURRING OPERATIONS
€3,873m
+10%

CURRENT OPERATING MARGIN
30.3%

(1) With comparable structure and exchange rates.

PERFUMES & COSMETICS

CONTINUED SUCCESS OF INNOVATIONS; EXCELLENT PERFORMANCE IN MAKEUP

Parfums Christian Dior

The Perfumes & Cosmetics business group recorded organic revenue growth of 8%. On a reported basis, revenue growth was 6%. Profit from recurring operations increased by 5%.

The inauguration of the new atelier for the creation of fragrances, Les Fontaines Parfumées, at Grasse was a highlight of the year. Parfums Christian Dior grew market share in all regions, driven by the worldwide success of *Sauvage* and the vitality of its iconic perfumes *J'adore* and *Miss Dior*. The progress of makeup also contributed to the Maison's excellent performance. Guerlain benefitted from the successful launch of its new makeup collection inspired by its fragrance *La Petite Robe Noire*. Benefit Cosmetics experienced strong growth driven by the success of its new collection for eyebrows. Make Up For Ever, Fresh and Kat Von D performed well.

REVENUE
€4,953m
+8%[1]

PROFIT FROM RECURRING OPERATIONS
€551m
+5%

CURRENT OPERATING MARGIN
11.1%

(1) With comparable structure and exchange rates.

WATCHES & JEWELRY

MARKET SHARE GAINS FOR BVLGARI AND TAG HEUER

Bvlgari

The Watches & Jewelry business group recorded organic revenue growth of 5%. On a reported basis, revenue growth was 5%. Profit from recurring operations increased by 6%.

Bvlgari continued to gain market share with enhancements to its *Serpenti*, *Diva* and *B.zero1* lines. Growth continued in China, Korea and in the Middle East. TAG Heuer grew despite a difficult market for watches, gained market share and benefitted from the success of its new collections and its connected watch. Hublot accelerated its development in Asia and recorded the best year in its history. Chaumet continued to move its product lines upmarket and inaugurated a new boutique concept in Hong Kong.

REVENUE

€3,468m

+5% (1)

PROFIT FROM RECURRING OPERATIONS

€458m

+6%

CURRENT OPERATING MARGIN

13.2%

(1) With comparable structure and exchange rates.

SELECTIVE RETAILING

GOOD PERFORMANCE AT SEPHORA, DFS IMPACTED BY A DIFFICULT TOURISM CONTEXT IN ASIA

Sephora

The Selective Retailing business group recorded organic revenue growth of 8%. On a reported basis, revenue growth was 7%. Profit from recurring operations declined by 2%.

Sephora gained market share across all regions and once again recorded double-digit growth in both revenue and profits. More than a hundred stores were opened in 2016 including notably a flagship store in the World Trade Center in New York and major renovations in Boston and Singapore. Its online offer accelerated with the launch in six new countries. DFS continued to face a difficult environment, notably in Hong Kong. The expansion into new destinations continued. The opening of the *T Galleria* in Angkor in Cambodia and one in Venice, Italy were the highlights of the year.

REVENUE
€11,973m
+8% (1)

PROFIT FROM RECURRING OPERATIONS
€919m
-2%

CURRENT OPERATING MARGIN
7.7%

(1) With comparable structure and exchange rates.

THE LVMH SHARE

CHANGES IN THE LVMH SHARE PRICE

2016 was another turbulent year for stock markets. At first preoccupied by tumbling oil prices and the slowdown in the Chinese economy, investors quickly turned their attention to the upcoming referendum in the United Kingdom followed by the election in the United States. In both cases, the results of these elections took markets by surprise, but their reactions to these events also confounded expectations. These shocks were quickly absorbed, with investors eventually seeing Brexit as an extended process with more remote effects on the UK economy, and finding factors that would support growth and inflation in Donald Trump's economic plan for the United States. Higher interest rates – which favor banking stocks in particular – and year-end oil prices also helped fuel a recovery, enabling stock markets to end 2016 in positive territory.

Against this backdrop, the CAC 40 and Euro Stoxx 50 indices ended 2016 up 4.9% and 0.7%, respectively. The LVMH share price was up 25.2%, ending the year at a historic high of €181.40. LVMH's market capitalization was €92 billion as of end-December 2016, making it the fourth-largest company on the Paris stock exchange.

LVMH is included in the main French and European indices used by fund managers: the CAC 40, Dow Jones Euro Stoxx 50, MSCI Europe and the FTSE Eurotop 100, as well as the Global Dow and FTSE4Good, one of the key indices for socially responsible investing.

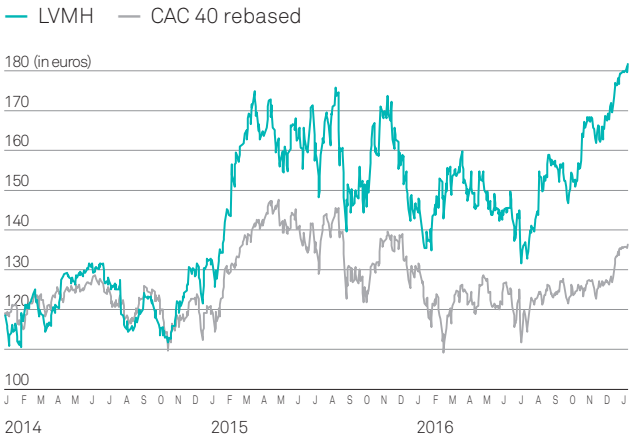
TOTAL SHAREHOLDER RETURN

An LVMH shareholder who invested €1,000 on January 1, 2012 would have a capital of €2,033 on December 31, 2016, based on reinvested dividends. That is a 103% gain, translating to a compound annual growth rate of around 15.4% over five years.

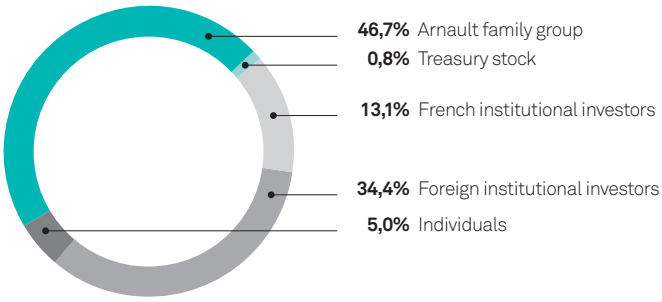
DIVIDEND INCREASE OF 13%

At the Annual Shareholders' Meeting on April 13, 2017, LVMH will propose a dividend of €4.00 per share, an increase of 13%. An interim dividend of €1.40 per share was paid on December 1, 2016. The final dividend of €2.60 per share will be paid on April 21, 2017.

Comparison between the LVMH share price and the CAC 40 since January 2, 2014



LVMH shareholder structure[1] December 2016



(1) Voting rights: Arnault family group 63.07%, Other 36.93%.

SHAREHOLDER RELATIONS

THE WEBSITE

The LVMH website (www.lvmh.com) gives access to a wide range of regularly updated information on the Group and its brands. A section specially aimed at the financial community and LVMH shareholders features the share price in real time, its chart relative to the CAC 40, the events schedule, press releases and presentations, in particular the Shareholders' AGM, which can be watched live or on replay.

Communications media can be viewed in the Publications section along with the Annual Report and Reference Document. A form is available online to request copies by mail. LVMH also sends out Group news by e-mail to web users who sign up for Press Release alerts. A Shareholders alert lets users know when the latest letter to shareholders has been released. Lastly, a Calendar alert is available for those wishing to be advised of updates to this section and receive an e-mail reminder the day before an event.

2016 Annual Report

Discover the digital edition on **www.lvmh.com** in the Shareholders section.

THE SHAREHOLDERS' CLUB

Tailored to individual shareholders who show a special interest in what is happening at the Group, the LVMH Shareholders' Club gives its members a better understanding of LVMH, its businesses and its Maisons.

Through the Club's membership magazine *Apartés*, members can order a selection of the Group's Wines and Spirits, subscribe to *Les Échos*, *Investir*, and *Connaissance des Arts* at preferential rates, and enjoy special visitor access to certain sites such as wineries and wine cellars. Priority-access tickets can also be ordered for Fondation Louis Vuitton.

To become a member of the LVMH Shareholders' Club, just fill out the online membership form on the Shareholders page of the website, or request a form from the Club by postal mail.

New in 2016: an exclusive Shareholders' Club online store

The Group's exclusive Wines and Spirits offering is now also available through the Club's online store, **www.clublvmh-eboutique.fr**. Shareholders' Club members can access this private shopping space once they've activated their account.

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Photographs: Fendi, Daniele La Malfa (cover) – Karl Lagerfeld – Hennessy – Louis Vuitton Malletier, Patrick Demarchelier – Christian Dior Parfums – Bvlgari – Sephora – Picture libraries of LVMH and Group's Maisons.

E-accessible version: Ipedis.
Design and production: Agence Marc Praquin.

AGENDA

Thursday, January 26, 2017
Publication of 2016
annual revenue and results

April 2017
Publication of 2017
first-quarter revenue

Thursday, April 13, 2017
Shareholders' Meeting

Friday, April 21, 2017
Payment of the final dividend
for fiscal year 2016 (last trading day
with dividend rights: April 18, 2017)

July 2017
Publication of 2017
half-year revenue and results

October 2017
Publication of 2017
third-quarter revenue

Fendi – Fashion show at the Trevi Fountain in Rome

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