

MANAGEMENT REPORT OF THE BOARD OF DIRECTORS

LVMH and the environment

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Pursuant to:

- France's Decree No. 2002-221 of February 20, 2002, known as the NRE decree ("*Nouvelles Régulations Économiques*");
- decree No. 2012-557 of April 24, 2012 regarding companies' transparency obligations with respect to social and environmental issues;
- decree No. 2016-1138 of August 19, 2016 amending Article L.225-102-1 of the French Commercial Code pursuant to Law No. 2015-992 of August 17, 2015 on energy transition for green growth, and Law No. 2016-138 of February 11, 2016 on combating food waste;
- decree No. 2017-1265 of August 9, 2017 on the publication of non-financial disclosures by certain large companies and certain groups of companies;

the following sections provide information on the type and significance of relevant and significant impacts only, with regard to business operations.

The environmental information contained in this report has been verified by an independent verifier in accordance with Article 225 of the "Grenelle II" Law of July 12, 2010. The Environment Department conducted an assessment to identify disclosures and significant indicators relative to the Group's business to be covered, at LVMH's request, by an audit by that same independent verifier with the aim of obtaining

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

	% of Group sales floor space taken into account in calculating energy consumption and greenhouse gas emissions ^(a)		% of Group sales floor space taken into account in calculating water consumption ^(a)	
	2017	2016	2017	2016
Group total	69 ^(b)	71	19	21

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

(b) Change related to the exceptional exclusion of certain zones.

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

	% of Group company sales floor space taken into account in calculating energy consumption and greenhouse gas emissions		% of Group company sales floor space taken into account in calculating water consumption	
	2017	2016	2017	2016
DFS	87	83	54	63
Louis Vuitton	66	70	-	-
Sephora North America and Latin America	71	70	18	16
Sephora Europe and Asia	74	84	8	16

Calculations of energy consumption and greenhouse gas emissions also include all French stores operated by Berluti, Givenchy, Guerlain, Kenzo, Le Bon Marché, and Make Up For Ever, and certain stores operated by Acqua di Parma, Benefit, Bvlgari,

a higher level of assurance than that required by law ("reasonable assurance"). This independent verifier's findings are presented after the "LVMH and the environment" section of the Reference Document.

A copy of the LVMH Environment Reporting Protocol can be requested from environnement@lvmh.fr. More information and explanations may be found in the 2017 LVMH Environmental Report.

The environmental indicator reporting process covered the following scope in 2017:

Production facilities, warehouses and administrative sites (number)	2017
Sites covered ^(a)	252
Sites not covered ^(b)	135
Total number of sites	387

(a) Integration of Christian Dior Couture.

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

94% of production sites are covered. The manufacturing, logistics and administrative sites that are not covered by environmental reporting are essentially excluded for operational reasons and are not material. A plan to gradually include them is underway.

Calculations of water consumption also include certain stores operated by Berluti, Bvlgari, Chaumet, Christian Dior Couture, Fendi, Guerlain, Kenzo, Le Bon Marché and Loewe.

For waste production, only stores operated by DFS, Le Bon Marché and certain Acqua di Parma, Berluti, Bvlgari, Chaumet,

Christian Dior Couture, Fendi, Givenchy, Make Up For Ever and Sephora Europe stores are included in the scope. The Group has almost 4,000 stores, and certain environmental data is difficult for small stores to obtain. However, the Group has set itself the target to gradually include those stores.

1. GENERAL ENVIRONMENTAL POLICY

1.1. Evaluation and certification programs and organization

The Group has had an Environment Department since 1992. In 2001, LVMH established an Environmental Charter signed by the Chairman of the Group, under which each Group company must undertake to put in place an effective environmental management system, create think tanks to assess the environmental impacts of the Group's products, manage risks and adopt environmental best practices. The Charter is presented in greater detail in the LVMH Environmental Report. In 2003, Bernard Arnault joined the United Nations' Global Compact program. In 2017, the Group was included in the main indices based on responsible investment criteria: FTSE4Good Global 100, Euronext Vigeo Eurozone 120 and ESI (Ethibel Sustainability Indices) Europe.

As such, the Group undertakes to:

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

The Group's Environment Department has the following objectives:

- roll out the LIFE (LVMH Initiatives For the Environment) program;
- guide Group companies' environmental policies, in compliance with the LVMH Charter;
- conduct internal audits to assess Group companies' environmental performance;
- monitor regulatory and technical developments;
- create management tools that address issues such as packaging design, supplier relations and regulatory monitoring;
- help Group companies safeguard against risks;
- train employees and raise environmental awareness at every level of the organization;
- define and consolidate environmental indicators;

- work with the various stakeholders involved (non-profits, rating agencies, public authorities, etc.).

It is supported by the Environment Committee, which meets several times a year, bringing together a network of almost 80 environmental representatives from Group companies.

The LIFE program is designed to reinforce the incorporation of environmental concerns into management processes, facilitate the development of new coordination tools, and take into account developments and improvements arising from innovative practices at Group companies. Group companies have incorporated the LIFE program into their strategic plans since 2014. The LIFE program was implemented by a Steering Committee at each Group company and is based on nine key aspects of environmental performance:

- environmental design;
- securing access to strategic raw materials and supply channels;
- traceability and compliance of materials;
- suppliers' environmental and social responsibility;
- preserving critical expertise;
- reducing greenhouse gas emissions;
- environmental excellence in manufacturing processes;
- product life span and reparability;
- customer and key stakeholder information.

To further improve consistency and efficiency, in 2016 the Group gave its companies – regardless of business sector – four shared targets to be achieved by 2020 (the baseline year being 2013):

- sustainable product design: by 2020, Group companies must make all their products more environmentally friendly. LVMH's Perfumes and Cosmetics companies and Wines and Spirits companies undertake to improve their Environmental Performance Index (EPI) score by 10% (see §3.2, "Raw material consumption"). Fashion and Leather Goods companies and Watches and Jewelry companies establish sustainable design guidelines to be applied during product development;

- suppliers and raw materials: Group companies must ensure that optimum standards are rolled out in their procurement of raw materials supplies and among their suppliers across 70% of the supply chain by 2020 and 100% by 2025;
- cutting energy-related CO₂ emissions by 25%;
- make all production sites and stores more environmentally friendly: Group companies undertake to reduce at least one of the following indicators – water consumption, energy consumption or waste production – by 10% at each of their sites, and to have an effective environmental management system focused on ongoing improvement. Stores must be made 15% more energy efficient and new stores will have to achieve a minimum performance of 50% according to the LVMH Store Guidelines score chart.

With regard to certification, all of the Cognac, Champagne and Vodka companies and all of Guerlain's activities in France have now obtained ISO 14001 certification. Parfums Christian Dior, Make Up For Ever and LVMH Fragrance Brands have also had all of their manufacturing and logistics facilities certified.

1.2. Training

In 2017, almost all Group companies continued with their employee environmental training and awareness programs.

1.3. Preventing environmental risks and pollution

Group companies are regularly audited by third parties, insurers or internal auditors, enabling them to keep their compliance monitoring plans up to date. In 2017, certain manufacturing, logistics and administrative sites, as well as certain large stores, were audited, for a total of 87 external audits and 147 internal audits, with some sites being audited several times during the year. Such audits correspond to an inspection of one or more sites belonging to the same company, covering all relevant environmental issues – waste, water, energy, and environmental

1.4. Provisions and guarantees given for environmental risks

Environmental expenses are recognized in accordance with the recommendations of the French Accounting Standards Authority (ANC). Operating expenses and capital expenditure are recognized against each of the following items:

- air and climate protection;
- waste water management;
- waste management;
- protection and purification of soil, groundwater and surface water;
- noise and vibration reduction;
- biodiversity and landscape protection;

At Louis Vuitton, the supply chain has been ISO 14001 certified for Leather Goods and Accessories. This is a world first, and the result of cooperation between the Logistics Division and its transportation and logistics partners. 70% of Louis Vuitton workshops are also certified. At the end of 2017, 53% of the Group's manufacturing, logistics and administrative sites were ISO 14001 certified (63% of manufacturing sites).

LVMH's Watches and Jewelry business group is a member of the Responsible Jewellery Council (RJC), an organization that brings together over 550 member companies committed to promoting ethical behavior, human rights and social and environmental practices throughout the industry, from mine to point of sale. The RJC has developed a certification system designed, in particular, to ensure that diamonds used in manufacturing do not come from conflict zones. The Kimberly Process is applied to diamonds. Kimberly certification requires input from independent accredited auditors. All Watches and Jewelry companies have been certified according to the Code of Practices (2013 version).

These programs totaled 18,841 hours, 8% lower than in 2016 (20,511 hours).

management – and are documented in a written report including recommendations. The figure does not include the numerous compliance controls that may be performed on a specific environmental regulation issue – for example, a waste sorting inspection – performed periodically by Group companies at their sites. Additional information is available in the "Management of extra-financial and financial risks" section of the "Management Report of the Board of Directors", under §2, "Risk identification".

- radiation protection;
- research and development;
- other environmental protection measures.

Environmental protection expenses in 2017 broke down as follows:

- operating expenses: 14.5 million euros;
- capital expenditure: 20.5 million euros.

Provisions for environmental risks amounted to 13 million euros as of December 31, 2017. This amount corresponds to the financial guarantees required by law for Seveso upper-tier establishments.

2. POLLUTION AND WASTE MANAGEMENT

2.1. Preventing and reducing air, water and soil discharges

The discharges of substances causing eutrophication by Wines and Spirits, Fashion and Leather Goods, and Perfumes and Cosmetics operations are considered the only significant and relevant emissions into water. The Group's other business groups have a very limited impact on water quality. Eutrophication is the excessive buildup of algae and aquatic plants caused by excess nutrients in the water (particularly phosphorus), which reduces water oxygenation and adversely impacts the

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

COD after treatment <i>(metric tons/year)</i>	2017	2016	2017 pro forma ⁽¹⁾	Change ⁽¹⁾ <i>(as %)</i>
Wines and Spirits	1,611	3,195	1,611	(50) ^(a)
Fashion and Leather Goods	39	152	39	(74) ^(a)
Perfumes and Cosmetics	9	7	7	23
Total	1,659	3,354	1,659	(51)

(a) Change related to improvement of waste water treatments.

In 2017, the installation of an innovative wastewater treatment system enabled Glenmorangie to very significantly reduce its COD after treatment.

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

2.2. Preventing, recycling and eliminating waste

In 2017, 91% of waste was recovered (86% in 2016). Recovered waste is waste for which the final use corresponds to one of the following channels, listed in descending order of interest in accordance with European and French laws:

- re-use, i.e. the waste is used for the same purpose for which the product was initially designed;

Volatile Organic Compound (VOC) emissions are addressed through specific action plans, notably for Perfumes and Cosmetics operations and the tanneries. The subject of soil discharges is addressed in §3.4, "Soil use".

- recycling, i.e. direct reintroduction of waste into its original manufacturing cycle resulting in the total or partial replacement of an unused raw material, controlled composting or land treatment of organic waste to be used as fertilizer;
- incineration for energy production, i.e. recovery of energy in the form of electricity or heat by burning the waste.

[1] Value and change at constant scope.

Waste produced

<i>(in metric tons)</i>	Waste produced in 2017	Of which: hazardous waste produced in 2017 ^(a)	Waste produced in 2016	Waste produced in 2017 pro forma ⁽¹⁾	Change in waste produced ⁽¹⁾ <i>(as %)</i>
Wines and Spirits	48,410	287	52,899	48,410	(8)
Fashion and Leather Goods	12,505	1,072	11,194	11,636	4
Perfumes and Cosmetics	8,741	1,609	7,674	8,743	14 ^(b)
Watches and Jewelry	904	197	1,151	1,033	(10)
Selective Retailing	5,994	121	6,589	5,958	(10)
Other activities	1,995	71	1,280	2,025	58 ^(c)
Total	78,549	3,357	80,787	77,805	(4)

(a) Waste that must be sorted and processed separately from non-hazardous waste (such as cardboard, plastic or paper).

(b) Change related to business activity.

(c) Change related to improvement of reporting process.

Waste recovery in 2017

<i>(as % of waste produced)</i>	Re-used	Recovery of materials	Waste-to-energy recovery	Total recovery
Wines and Spirits	18	72	6	96
Fashion and Leather Goods	2	41	30	73
Perfumes and Cosmetics	3	74	20	97
Watches and Jewelry	12	40	25	78
Selective Retailing	9	44	27	81
Other activities	-	30	63	93
Total	12	64	15	91

The Perfumes and Cosmetics companies, as well as Sephora since 2010 and Louis Vuitton since 2011, have used the CEDRE recovery and recycling facility (*Centre Environnemental de Déconditionnement, Recyclage Écologique*) to handle all the waste generated by the manufacturing, packaging, distribution, and sale of cosmetic products. CEDRE accepts several types of articles: obsolete packaging, alcohol-based products, advertising materials, store testers, and empty packaging returned to stores by customers. In 2014, the service was expanded to accept

textiles. In 2017, around 2,143 metric tons of waste were processed. The various materials (glass, cardboard, wood, metal, plastics, alcohol, cellophane and textiles) are resold to a network of specialized recyclers. As regards food waste, La Grande Épicerie de Paris, which has a number of fresh food production facilities, has developed an accurate system for predicting sales in order to adapt production to production volumes on a daily basis. It has formed a partnership with the Red Cross, which collects any unsold produce each day.

2.3. Addressing noise pollution and other forms of pollution

The Group's business activities do not have a significant impact in terms of noise pollution and other forms of air pollution. Nevertheless, the Group's companies remain vigilant, particularly

with the help of the environmental management systems that have been put in place, and are attentive to their surroundings and civil society.

(1) Value and change at constant scope.

3. SUSTAINABLE USE OF RESOURCES

3.1. Water consumption and supply according to local constraints

Water consumption is analyzed based on the following requirements:

- process requirements: use of water for cleaning purposes (tanks, products, equipment, floors), air conditioning, employees, product manufacturing, etc. Such water consumption generates waste water;

- agricultural requirements: water consumption for vineyard irrigation outside France, as irrigation is not used for the Group's vineyards in France. As such, water is taken directly from its natural environment for irrigation purposes. Its consumption varies each year according to changes in weather conditions. However, it is worth noting that the measurement by the sites of water consumption for agricultural purposes is less precise than the measurement of process water consumption.

<i>(in m³)</i>	2017	2016	2017 pro forma ⁽¹⁾	Change ⁽¹⁾ <i>(as %)</i>
Process requirements	3,876,536	3,727,289	3,863,705	4
Agricultural requirements (vineyard irrigation)	4,721,037	4,507,022	4,721,037	5

Water consumption for process requirements can be broken down as follows by business group:

<i>(process requirements in m³)</i>	2017	2016	2017 pro forma ⁽¹⁾	Change ⁽¹⁾ <i>(as %)</i>
Wines and Spirits	1,151,814	1,171,530	1,151,814	(2)
Fashion and Leather Goods	1,714,661	1,509,969	1,635,424	8 ^(a)
Perfumes and Cosmetics	178,646	172,064	179,027	4
Watches and Jewelry	91,416	62,129	70,317	13 ^(a)
Selective Retailing	483,950	535,728	566,030	6
Other activities	256,049	275,869	261,093	(5)
Total	3,876,536	3,727,289	3,863,705	4

(a) Change related to business activity.

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

- the Cheval des Andes and Terrazas de Los Andes vineyards, which represent 76% of the Group's agricultural water requirements;
- the Domaine Chandon California and Newton vineyards, which represent 5% of the Group's agricultural water requirements.

Vineyard irrigation is an authorized and supervised practice in California and Argentina due to the climate. It is essential for the preservation of vineyards. The Group has also taken the following measures to limit water consumption: harvesting rainwater; drafting agreements on measures and specifications with respect to water requirements; standardizing drip irrigation practices in California; using weather forecasts to optimize irrigation; and adopting the "regulated deficit irrigation" technique, which reduces water consumption and actually improves grape quality and grapevine size, yielding an enhanced concentration of aroma and color.

(1) Value and change at constant scope.

3.2. Raw material consumption

The main raw materials consumed by the Group are as follows:

- grapes (see §3.4, “Soil use”);
- leathers, raw lamb and calf skins, and exotic leathers (see §5, “Protecting biodiversity”);
- plant species (see §5, “Protecting biodiversity”);
- gemstones and precious metals (see §1.1, “Evaluation and certification programs and organization”);
- regulated chemicals. All Group companies have incorporated the requirements of the REACH Commission Regulation into their contractual documents so as to engage all suppliers in this undertaking.

Additional information is available in the “Management of extra-financial and financial risks” section of the “*Management Report of the Board of Directors*”.

Packaging that reaches customers

<i>(in metric tons)</i>	2017	2016	2017 pro forma ⁽¹⁾	Change ⁽¹⁾ <i>(as %)</i>
Wines and Spirits	161,890	161,331	161,890	-
Fashion and Leather Goods	9,522	6,855	8,684	27 ^(a)
Perfumes and Cosmetics	28,340	27,591	28,340	3
Watches and Jewelry	4,880	4,090	4,880	19 ^(a)
Selective Retailing	5,177	6,204	5,177	(16) ^(b)
Total	209,809	206,071	208,971	1

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

(b) Change related to optimization of reporting process.

Breakdown of the total weight of packaging that reaches customers, by type of material, in 2017

<i>(in metric tons)</i>	Glass	Paper- cardboard	Plastic	Metal	Fabric	Other packaging material
Wines and Spirits	141,926	15,245	1,592	1,540	64	1,523
Fashion and Leather Goods	-	8,156	62	-	1,291	13
Perfumes and Cosmetics	14,405	4,351	6,924	2,215	122	323
Watches and Jewelry	1,983	1,040	1,402	247	137	71
Selective Retailing	98	3,007	1,991	71	2	8
Total	158,412	31,799	11,971	4,073	1,616	1,938

Group companies have adapted different tools and training to ensure that there is optimum consideration of the environment in product design. The Edibox application has been rolled out at Parfums Christian Dior, Guerlain, LVMH Fragrance Brands, Make Up For Ever, Louis Vuitton, Bvlgari and Sephora so as to ensure that environmental concerns are incorporated into the early stages of packaging design. This application calculates the Environmental Performance Index (EPI) and the greenhouse gas emissions generated by packaging materials. The criteria it uses are weight, volume, separability of materials and the

The only significant, relevant criterion used by all Group companies for the analysis of raw material consumption is the quantity of packaging that reaches customers, measured in metric tons:

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

Packaging used for transportation is not included in this analysis.

number of packaging layers. As an example, the new *Dior Hydra Life* skincare line launched in 2017 stands out, not only because an average 83% of its ingredients are of natural origin: its packaging is also the result of a sustainable design process. By eliminating unnecessary cardboard, leaflets and cellophane, packaging volume was reduced by 30% to 40% depending on the product. The single-material embossed plastic cap is also 65% lighter than the one used for the previous product line. The Group company has set ambitious sustainable design targets and will build on this approach.

(1) Value and change at constant scope.

3.3. Energy consumption, measures taken to improve energy efficiency and renewable energy use

Energy consumption corresponds to primary energy sources (such as fuel oil, butane, propane and natural gas) added to secondary energy sources (such as electricity, steam and ice

water) mainly used for the implementation of manufacturing processes in addition to buildings and stores' air conditioning and heating systems.

Energy consumption by business group (in MWh)	2017	2016	2017 pro forma ⁽¹⁾	Change ⁽¹⁾ (as %)
Wines and Spirits	188,292	192,500	188,292	(2)
Fashion and Leather Goods	371,105	328,523	332,862	1
Perfumes and Cosmetics	90,160	83,664	86,862	4
Watches and Jewelry	35,924	30,568	31,674	4
Selective Retailing	296,537	320,500	308,233	(4)
Other activities	17,091	18,351	18,995	4
Total	999,109	974,106	966,918	(1)

Consumption by energy source in 2017

(in MWh)	Electricity	Natural gas	Heavy fuel oil	Fuel oil	Butane Propane	Steam	Ice water	Renewable energies
Wines and Spirits	22,695	56,694	22,367	23,190	4,079	-	-	59,267
Fashion and Leather Goods	154,298	109,152	-	9,584	6,445	2,268	2,159	87,199
Perfumes and Cosmetics	7,679	31,794	-	70	-	897	407	49,313
Watches and Jewelry	15,241	5,825	-	2,001	215	-	-	12,642
Selective Retailing	198,728	9,236	-	1,271	6	3,403	4,074	79,819
Other activities	5,488	4,268	-	141	33	417	2,469	4,275
Total	404,129	216,969	22,367	36,257	10,778	6,985	9,109	292,515

Bilan Carbone[®] assessments and energy audits provide insights that Group companies can use to develop suitable strategies for reducing energy consumption. Group companies have

implemented a range of solutions with regard to store lighting and air conditioning, transportation, energy efficiency, and the promotion of renewable energy sources.

3.4. Soil use

Soil pollution arising from old manufacturing facilities (cognac, wine and champagne production, trunk production) is not considered significant at the Group level. The more recent production facilities are generally located on farmland with no history of pollution. The Group's manufacturing operations require very little soil use, except for wine production.

The Group's Wines and Spirits houses are doubly committed to sustainable winegrowing, for reasons both historic and strategic. They are pursuing a variety of initiatives in sustainable and organic farming that drastically reduce their environmental

impact. Hennessy, leading the way in sustainable development, became the world's first ISO 14001-certified wines and spirits company in 1998. The Group company's vineyards have earned France's "high environmental value" (HVE) certification and have been rated "benchmark farms" under the Ecophyto Plan to reduce pesticides since 2011. Hennessy has now committed to training 100% of its 1,600 winegrowing partners – representing 30,000 hectares – through the Charente sustainable winegrowing program by 2021. Since 2015, the champagne houses have achieved dual certification in sustainable winegrowing and "high environmental value".

[1] Value and change at constant scope.

4. COMBATING AND ADAPTING TO CLIMATE CHANGE

4.1. Reducing greenhouse gas emissions

For over 15 years, LVMH has carried out Bilan Carbone® assessments of the main Group companies and each year consolidates greenhouse gas emissions generated by the energy consumption of the Group's production plants and transportation of products. A specific study has been carried out assessing the environmental impact of the Group's raw material production and supply chain. Across the entire value chain quantified, 50% of emissions are generated by the production of raw materials and 30% by inbound and outbound transport. Next come emissions generated by production plants, logistics centers, offices and stores (20%), whether direct (Scope 1) or indirect (Scope 2). Downstream emissions generated by using products (washing of fashion products, rinsing of certain cosmetics products) or when products come to the end of their useful life will be refined at a later stage.

Breakdown of emissions by business group in 2017

<i>(in metric tons of CO₂ equivalent)</i>	CO ₂ emissions in 2017		<i>Of which:</i>		CO ₂ emissions in 2016	CO ₂ emissions in 2017 pro forma ⁽¹⁾	Change ⁽¹⁾ <i>(as %)</i>
	<i>Direct CO₂ emissions</i> <i>(as %)</i>	<i>Indirect CO₂ emissions</i> <i>(as %)</i>					
Wines and Spirits	36,442	69	31		39,787	36,442	[8]
Fashion and Leather Goods	104,990	25	75		104,070	87,575	[16] ^(a)
Perfumes and Cosmetics	11,892	55	45		9,106	9,613	6
Watches and Jewelry	5,633	32	68		4,001	3,784	[5]
Selective Retailing	116,375	2	98		138,873	125,932	[9]
Other activities	2,800	33	67		2,529	2,966	17 ^(b)
Total	278,132	23	77		298,366	266,312	[11]

(a) Change related to the switch to renewable energy at manufacturing sites.

(b) Change related to business activity.

LVMH has long stressed the importance of addressing climate change in its business activities, having carried out its first Bilan Carbone® assessments at the following Group companies in 2002: Moët & Chandon, Veuve Clicquot, Hennessy, Parfums Christian Dior, Guerlain, Parfums Kenzo, Parfums Givenchy, Givenchy, Make Up For Ever, DFS, Sephora and Le Bon Marché. Greenhouse gas emissions are retested using this assessment protocol every four years.

Group companies are working on ways to reduce energy consumption and greenhouse gas emissions at their own sites and stores (see §3.3). They are also taking action to reduce the emissions generated by their logistics chains. In order to ensure that supplies to its stores generate as little pollution as possible, Sephora has for many years used electric vehicles for

Scope 1 (direct) and Scope 2 (indirect) greenhouse gas emissions

Given the nature of the Group's operations, the only air emissions that have a significant impact on the environment are greenhouse gases. Estimated greenhouse gas emissions in metric tons of carbon dioxide equivalent (tCO₂e) correspond to site energy consumption emissions, as defined in §3.3.

Given the increasing importance of renewable energy issues within the Group, the CO₂ emissions calculation methodology was reviewed in 2016. The main Scope 1 and 2 greenhouse gas emission reduction initiatives involve reducing the amount of energy used for lighting and air conditioning in stores, and optimizing energy consumed by manufacturing processes.

deliveries to its city center stores. This positive practice, which is both environmentally friendly and economical, was introduced in France in 2009 and has since been rolled out to other countries. After China in 2015 and Italy in 2016, the practice was launched in Spain, with electric trucks now making deliveries in the urban areas of Madrid and Barcelona. Delivery trucks switch to 100% electric mode as soon as they enter Rome and Milan, two of the Italian peninsula's largest urban areas.

2017 was the second year of the internal carbon fund launched in 2015. This unprecedented initiative reaffirms the Group's commitment to helping to combat climate change. On the basis of 2016 greenhouse gas emissions, the fund totaled 5.7 million euros. 60 projects were selected in 2017. These projects – aimed at reducing energy consumption, shifting toward

(1) Value and change at constant scope.

renewable energies and improving the way energy consumption is tracked – could help avoid 1,800 metric tons of greenhouse gas emissions per year. LVMH decided to raise the bar even higher by doubling the amount contributed to the carbon fund in 2018, making further progress toward the LIFE program's goal of cutting energy-related emissions by 25% by 2020.

Scope 3 greenhouse gas emissions

The study carried out in 2016 into the environmental impact of producing the raw materials required to manufacture the Group's products showed that over 80% of emissions come from leather, grapes and glass. With the help of its partners, the Group is continuing with its efforts to quantify these emissions,

particularly by fine-tuning how it assesses the impact of raw materials like leather, gold and cotton:

- production of raw materials: the main sources of greenhouse gas emissions are leather production (330,000 tCO₂e), winegrowing (180,000 tCO₂e, which includes vineyards belonging to Group companies as well as grape suppliers) and glass for packaging production (150,000 tCO₂e);
- inbound transport: movement of raw materials and product components to production sites. Only the main materials and components are taken into account;
- outbound transport: movement of finished products from production sites to distribution platforms.

Distribution of greenhouse gas emissions generated by inbound transport in 2017

<i>(in metric tons of CO₂ equivalent)</i>	Road	Air	Ship	Total
Wines and Spirits	9,811	849	1,022	11,682
Fashion and Leather Goods	486	7,679	6	8,171
Perfumes and Cosmetics	10,106	27,086	443	37,635
Watches and Jewelry	3	1,834	4	1,841
Selective Retailing	-	-	-	-
Total	20,406	37,448	1,475	59,329

Distribution of greenhouse gas emissions generated by outbound transport in 2017

<i>(in metric tons of CO₂ equivalent)</i>	Road	Rail	Air	Ship	Inland barge	Electric vehicle	Total
Wines and Spirits	22,590	762	45,998	18,678	180	5	88,213
Fashion and Leather Goods	2,205	11	162,387	119	1	-	164,723
Perfumes and Cosmetics	2,590	-	206,640	1,646	-	-	210,876
Watches and Jewelry	338	-	31,552	82	-	-	31,972
Selective Retailing	3,190	-	20,879	251	-	88	24,408
Total	30,913	773	467,456	20,766	181	93	520,192

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

4.2. Adapting to climate change

The Group has also reviewed the various issues involved in adapting to climate change. In the medium term, changing winegrowing practices is the main component of the Group's adaptation strategy. Several solutions are available for European vineyards depending on the extent of climate change, from altering harvest dates to developing different methods of vineyard management (wider rows, increasing the size of grapevine stocks, employing irrigation in certain countries, etc.) and testing new grape varieties. For vineyards in Argentina and California,

the main issue is the availability of water (see §3.1, "Water consumption and supply according to local constraints"). Finally, according to current scientific knowledge, vineyards in New Zealand and western Australia are the least susceptible to climate change. Additional information is available in the "Management of extra-financial and financial risks" section of the "Management Report of the Board of Directors", under §2.1.9, "Industrial, environmental and meteorological risks".

5. PROTECTING BIODIVERSITY

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

LVMH was the first private-sector entity to join the eight public research bodies on the Board of Directors of the French Foundation for Research on Biodiversity (FRB). LVMH is now an official member of the FRB, with which it has been working for more than seven years. Sylvie Bénard, LVMH's Environment Director, has also served as Vice President of the Foundation's Strategic Orientation Committee for four years. As part of this committee, which brings together more than 160 stakeholders to jointly design research programs that favor biodiversity, the Group has mainly focused on accessing genetic resources and sharing the benefits resulting from their use.

The Fashion and Leather Goods and Watches and Jewelry business groups have implemented procedures to ensure that all of their products comply with CITES, a convention on international trade in endangered species. Through a system of import-export permits, this convention was set up to prevent overexploitation of certain species of endangered fauna and flora. Leather sourcing is a strategic priority, and Group companies mainly use European cowhide leather. Group companies participate in working groups such as the Leather Working Group (LWG) and Business for Social Responsibility (BSR).

6. CONSUMER HEALTH AND SAFETY

The LVMH group's policy concerning the sensitive issue of animal testing to evaluate the safety of finished products has always been clear: its aim is to guarantee the safety of consumers who use our products while taking into account respect for animal life. For that reason, since 1989, none of the Perfumes and Cosmetics companies have conducted tests on animals for the products they put on the market, thus well in advance of the official ban on animal testing imposed by European Union legislation in 2004. Since then, the development of alternatives to animal testing has remained a genuine scientific challenge and the LVMH group will continue to be very active in its efforts to rise to this challenge.

They work with their suppliers to improve traceability, animal well-being and the preservation of certain species. Animal well-being is one of the Group's key concerns, since it is connected to a number of raw materials including leathers, wools and furs. LVMH shares a common goal with civil society of improving animal well-being, and has been the driver of significant progress in this area. The Group has drafted formal rules that its Group companies and their suppliers must follow. The goal is to improve the quality of products used by Group companies as well as our suppliers' production methods. These rules are being gradually rolled out to all relevant suppliers. The Group has joined the Better Cotton Initiative (BCI), which has developed a standard to encourage measurable improvements in the main environmental impacts of growing cotton on a worldwide scale.

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

The Wines and Spirits business group is active in sustainable winegrowing, notably for the purposes of reducing pesticide use (see §3.4, "Soil use").

The Group remains particularly vigilant to ensure continuing compliance with regulatory requirements, while monitoring the opinions of scientific committees, and the recommendations of industry associations in Europe and throughout the world. Moreover, new products must abide by a set of strict internal guidelines imposed by the Group as criteria for their development. The Group also requires that its suppliers adhere to these same guidelines.

Honoring its commitments in this area for the last several years, the LVMH group has accompanied this policy with an approach that aims to anticipate developments in international regulations.

This anticipation is made possible thanks to the efforts of the Group's experts, who regularly take part in the working groups set up by national and European authorities, and are very active in professional organizations. Ongoing monitoring of changes in regulatory frameworks and the development of scientific knowledge by the Group's experts has regularly led LVMH to prohibit the use of some substances and make efforts to reformulate some of its products.

These high standards allow LVMH to guarantee the safety of its cosmetic products when they are released onto the market. In order to monitor the quality of their products after they are released, the LVMH group's brands have customer relations departments which receive any complaints from consumers for analysis, including complaints about adverse effects. This process – known as *cosmetovigilance* – is managed by a team of specialists who provide the Group's brands with access to a European network of healthcare professionals able to quickly respond to help consumers experiencing side effects. A similar approach is under development in China. Such post-market surveillance makes it possible to explore new areas of research and continually improve the quality and safety of our products.

For many years, Moët Hennessy has emphasized the responsible enjoyment of its champagnes, wines and spirits. This commitment takes shape through a diverse range of initiatives aimed at its employees and customers, as well as guests and visitors to its companies.

Not only does Moët Hennessy scrupulously adhere to local regulations, it also self-regulates across the entire spectrum of its communications and marketing practices, as well as following strict digital media guidelines, for example by using filters to keep underage viewers from visiting its companies' websites. Every year, Moët Hennessy's teams teach hundreds of consumers the rituals for tasting its exceptional products, thereby promoting the responsible enjoyment of wines and spirits.

In addition, on the labels of all its wine and champagne bottles in the European Union (except in France for legal reasons), Moët Hennessy provides links to websites that give consumers information on responsible drinking, such as www.wineinmoderation.com for wines, www.responsibleddrinking.eu for spirits and www.drinkaware.co.uk in the United Kingdom. Links to these websites are also available on the Group companies' websites.

Moët Hennessy continued to provide new employees with training on the importance of responsible drinking, and rolled out an internal communications campaign reminding employees that they are "all ambassadors for responsible drinking".

Moët Hennessy is a member of the European Alcohol and Health Forum, formed under the aegis of the European Commission.

Lastly, Moët Hennessy continued to actively support responsible drinking programs around the world run by the industry associations it belongs to. In particular, Moët Hennessy is one of three "Ambassador Companies" for Wine in Moderation, an international social responsibility movement for the wine sector.

INDEPENDENT VERIFIER'S REPORT ON CONSOLIDATED SOCIAL, ENVIRONMENTAL AND SOCIETAL INFORMATION IN THE MANAGEMENT REPORT

To the Shareholders,

In our capacity as an Independent Verifier accredited by COFRAC⁽¹⁾ (Accreditation No. 3-1050) and belonging to one of LVMH Moët Hennessy-Louis Vuitton's Statutory Auditor's network, we present our report on consolidated social, environmental and societal information for the fiscal year ended December 31, 2017, as presented in the Management Report, hereafter referred to as the "CSR Information," pursuant to the provisions of Article L.225-102-1 of the French Commercial Code (*Code de commerce*).

Responsibility of the Company

It is the responsibility of the Board of Directors to establish a Management Report including the CSR Information referred to in Article R.225-105-1 of the French Commercial Code, drawn up in accordance with the guidelines used by the Company (hereafter referred to as the "Guidelines"), which are summarized in the Management Report and available on request from the Group's Environment and Human resources Departments, respectively.

Independence and quality control

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

Responsibility of the Independent Verifier

It is our role, based on our work:

- to attest whether the required CSR Information is present in the Management Report or, in the case of its omission, that an explanation has been provided in accordance with the third paragraph of Article R.225-105 of the French Commercial Code (Attestation of presence of CSR Information);
- to express a limited assurance conclusion that, taken as a whole, the CSR Information is fairly presented, in all material aspects, in accordance with the Guidelines (Limited assurance on CSR Information);
- to express, at the request of the Company, a reasonable assurance conclusion that the information selected by the Group⁽²⁾ (hereafter referred to as the "Selected Environmental Information"), has been established, in all material aspects, in accordance with the Guidelines.

It is not our role, however, to issue an opinion on compliance with other applicable legal requirements, particularly those provided for in Article L.225-102-4 of the French Commercial Code (vigilance plan) and in Law No. 2016-1691 of December 9, 2016, known as the Sapin II Law (combating corruption).

Our work was undertaken by a team of six people between October 2017 and the date on which the report was signed, for a period of approximately 12 weeks.

We conducted the work described below in accordance with the professional standards applicable in France and the Order of May 13, 2013 determining the conditions under which an Independent Verifier should conduct its mission, and, with regard to the limited assurance, in accordance with the ISAE 3000 international standard⁽³⁾.

1. Attestation of presence of CSR Information

Nature and scope of work

On the basis of interviews conducted with the management of the departments concerned, we obtained an understanding of the presentation of the Company's sustainable development strategy, which is based on the social and environmental consequences linked to the Company's activities and its societal commitments, as well as, where applicable, any resulting actions or programs.

We compared the CSR Information presented in the Management Report with the list specified in Article R.225-105-1 of the French Commercial Code.

In the absence of certain consolidated information, we verified that the explanations were provided in accordance with the provisions of Article R.225-105, Paragraph 3 of the French Commercial Code.

We verified that the CSR Information covered the consolidated scope, namely the Company and its subsidiaries as construed under Article L.233-1 of the French Commercial Code and the companies that it controls as construed under Article L.233-3 of the same code, subject to the limits specified in the introduction to the "LVMH and the environment" and "Human resources" sections of the Management Report.

Conclusion

Based on this work, and taking into consideration the limitations mentioned above, we confirm the presence of the required CSR Information in the Management Report.

2. Limited assurance on CSR Information

Nature and scope of work

We undertook approximately ten interviews with the people responsible for preparing the CSR Information at the departments in charge of the data collection process and, if applicable, the people responsible for internal control and risk management procedures, in order to:

- assess the suitability of the Guidelines, in relation to their relevance, completeness, reliability, neutrality, and understandability, taking into consideration, where applicable, any industry best practices;
- verify the implementation of the process for collecting, compiling, processing and verifying the CSR Information for completeness and consistency and identify the procedures for internal control and risk management related to the preparation of the CSR Information.

We determined the nature and extent of our tests and verifications based on the nature and importance of the CSR Information, in relation to the characteristics of the Company, its activities' social and environmental issues, its strategy with regard to sustainable development and industry best practices.

For the CSR Information which we considered to be the most important⁽⁴⁾:

- at the level of the consolidating entity, we consulted documentary sources and conducted interviews to corroborate qualitative information (organization, policies, actions, etc.), we implemented analytical procedures on the quantitative information and verified, on a test basis, the calculations and the consolidation of the information, and verified the coherence and consistency thereof with the other information presented in the Management Report;
- at the level of the representative sample of entities that we selected⁽⁵⁾ based on their activity, their contribution to the consolidated indicators, their location and a risk analysis, we undertook interviews to verify the correct application of the procedures and carried out detailed tests on the basis of samples, consisting in verifying the calculations made and linking them with supporting documentation. The sample selected represented an average of 14% of the workforce and between 49% and 76% of the quantitative environmental information presented.

For the other consolidated CSR information, we assessed its consistency in relation to our knowledge of the Company.

Finally, we assessed the relevance of the explanations provided, where applicable, in response to the partial or complete absence of certain information, taking into account, where applicable, official professional best practices set out in the sector-specific Guidelines.

We consider that the sampling methods and sample sizes that we applied using our professional judgment allow us to formulate a limited assurance conclusion; an assurance of a higher level would have required more extensive verification work. Due to the application of sampling techniques and other limitations inherent in the functioning of any information and internal control system, the risk of non-detection of a material misstatement in the CSR Information cannot be entirely eliminated.

Conclusion

Based on our work, we did not identify any material misstatement that may have caused us to believe that the CSR Information, taken as a whole, has not been fairly presented in compliance with the Guidelines.

3. Reasonable assurance report on a selection of CSR Information

Nature and scope of work

Regarding the Selected Environmental Information, we undertook work of the same nature as that described in Paragraph 2 above for the CSR Information considered to be the most important, but in a more in-depth manner, particularly in relation to the number of tests.

The sample selected represents on average 55% of the Selected Environmental Information.

We consider that this work allows us to express a reasonable assurance conclusion on the Selected Environmental Information.

Conclusion

In our opinion, the Selected Environmental Information provided by the Company has been established, in all material aspects, in compliance with the Guidelines.

Paris-La Défense, February 8, 2018

The Independent Verifier

ERNST & YOUNG et Associés

Éric Duvaud
Sustainable Development Partner

Bruno Perrin
Partner

(1) Scope of accreditation available at www.cofrac.fr.

(2) **Information verified with reasonable assurance:** percentage of sites certified ISO 14001 (%); total water consumption for process needs (m³); total waste produced (metric tons); total hazardous waste produced (metric tons); percentage waste recovery (%); total energy consumption (MWh); total greenhouse gas emissions (metric tons of CO₂ equivalent); total packaging that reaches customers (metric tons); Chemical Oxygen Demand after treatment (metric tons/year).

(3) ISAE 3000 – Assurance Engagements Other than Audits or Reviews of Historical Information.

(4) **Environmental and societal information:** general environmental policy, preventive, reduction and compensatory measures for discharges into the air, water and soil having a serious environmental impact; waste prevention, recycling and elimination measures, water consumption and water supply considering local constraints, raw material consumption and measures undertaken to enhance resource efficiency, energy consumption, measures undertaken to improve energy efficiency and to promote the use of renewable energy, release of greenhouse gases, measures undertaken to develop biodiversity; consumer health and safety.

Social information: total headcount as of December 31 and breakdown per professional category and geographic region; voluntary and involuntary staff turnover; hiring; lost time accidents; frequency rate; severity rate; percentage of employees trained during the year; number of days of training per employee; absence rate by reason for absence.

(5) **Environmental information:** Wine and Spirits: Glenmorangie Tain [Scotland], MHCS (France), Domaine Chandon Argentina [Argentina], Belvedere (Poland); Fashion and Leather Goods: Loro Piana Quarona (Italy), Louis Vuitton Malletier Barbera (Spain), Louis Vuitton Malletier (stores, France), Fendi (Italy), Cypress Creek Farms (United States), Heng Long tanneries (China), Christian Dior Couture (Blois and Paris sites, France); Perfumes and Cosmetics: Parfums Christian Dior (Saint-Jean-de-Braye, France), Parfums Christian Dior (Pudong, China) LVMH Fragrance Brands (Group company, France), Guerlain – La Ruche (France); Watches and Jewelry: Hublot Nyon (Switzerland), Bvlgari (stores and Group company, Italy); Selective Retailing: Sephora Europe/Middle East/Asia (France), DFS (stores, Hong Kong); Other activities: Le Jardin d'Acclimatation (France).

Social information: Wine and Spirits: Hennessy (France); Fashion and Leather Goods: Louis Vuitton USA (United States), Louis Vuitton SCTA (Spain), Marc Jacobs International LLC (United States), Christian Dior Commercial Shanghai Co. Ltd (China); Perfumes and Cosmetics: Parfums Christian Dior (France), Benefit Cosmetics USA (United States); Watches and Jewelry: Bvlgari Shanghai Ltd (China); Selective Retailing: Sephora Canada (Canada), Sephora China (China), DFS Venture Singapore Pte Ltd (Singapore), Starboard Cruise Services (United States).

This is a free translation into English of the Independent Verifier's report issued in French and is provided solely for the convenience of English-speaking users. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.