

# LVMH

## Letter to shareholders

### March 2014

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# A passionate path ahead

In 2013, LVMH's revenue rose once again, with profit from recurring operations topping 6 billion euros for the first time. In a buoyant, competitive and rapidly changing market, our Group continues to succeed by combining long-term vision with agility, tradition with innovation, and an entrepreneurial spirit with our role as corporate citizen.



Our Group has had an excellent year, demonstrating that it can continue to move forward in a climate characterized by economic and monetary uncertainty. While sticking firmly to our long-term strategy, we are adapting our decisions and actions to the ever faster changes in our market environment. We can count on the power of our brands, their alliance of quality, tradition and innovation, the responsiveness of a highly action-oriented organization, and the ambition shared by our talented teams for perfect strategy execution. In a competitive environment for all our business lines, these key strengths will maintain our competitive edge.

#### **A dynamic year for all our business groups**

We have made many, solid achievements. Our Wines and Spirits brands continue to grow while strengthening their image and reputation for excellence. Louis Vuitton is reinventing its icons and upgrading its stores. Its unique savoir-faire and exceptional creative resources come to the fore in its collections. New icons are emerging. Nicolas Ghesquière, appointed Artistic Director for Louis Vuitton's women's collections, is one of the most talented designers. He shares Louis Vuitton's vision and values, and brings a great sense of enthusiasm to the task of working with our teams to build its future. Our Perfumes and Cosmetics brands have been strengthening their research facilities and increasing market share with an unwavering commitment

to excellence. Bulgari's integration within the Watches and Jewelry business group has been a success. Our Selective Retailing businesses are exceptionally dynamic, combining an avant-garde mindset with innovative services, while consistently striving to offer a unique customer experience. As we strengthen our position in traditional markets, we continue to expand our reach into new territories. The wineries that Moët Hennessy created recently in India and China are starting commercial operations. In South America, Southeast Asia and Africa, new countries are opening up to our products and the lifestyle they represent.

#### **Growth drivers, selective investments**

The market for luxury products has a bright future, and a passionate path lies ahead of us. We are confident in our growth model as we focus our efforts on three key long-term objectives: perpetuating the success of our flagship brands, nurturing other brands that have the potential to follow in their footsteps, and seizing growth opportunities when alliances based on common values can be conducted. A year rich in landmark projects and achievements, 2013 is but a prelude to further important developments.

Several of our high-potential brands have met with evident success. They have been developed over time and now represent a second wave of growth. This is true of Céline, Fresh, Benefit... and Marc Jacobs, which has really evolved since it joined the Group. After sixteen fantastic years as Creative Director for Louis Vuitton, co-founder Marc Jacobs is now planning to dedicate himself entirely to the future of his eponymous brand. This is a wonderful opportunity for this highly creative company with enormous potential ahead of it. The same goes for Berluti, which is booming in the men's fashion market. This legendary brand remains faithful to its inherited traditions of premium quality shoemaking, even as it seeks to grow creatively and gradually roll out a new store concept.

#### Loro Piana, an exceptional universe

The arrival of Loro Piana within the Group is a major event. This rapidly growing family business has its own unique savoir-faire in selecting the most beautiful natural textile fibers, developing fabrics and creating clothing of superlative quality. I am proud that Loro Piana, which symbolizes an exceptional universe for the most demanding international clientele, has chosen to join forces with our Group. Mr. Sergio Loro Piana, one of the leaders who forged this successful enterprise, sadly passed away not long ago. We feel his absence sharply, and our pride is tinged with sorrow. Such sorrow, however, only increases our determination to do everything we can, alongside his brother Pier Luigi Loro Piana and his teams, to carry on the adventure of this beautiful brand, as it has always been: the epitome of excellence.

#### Entrepreneurial spirit, the drive to surpass ourselves

Despite some signs of improvement, we enter 2014 in a still uncertain economic environment that leads us to remain extremely vigilant and selective in allocating our resources. Nevertheless, thanks to the strength of LVMH and its flagship brands, we retain a clear-headed commitment to our objectives. All the efforts I mentioned above are focused on long-term value. I am confident in our teams' ability to meet challenges and seize the many opportunities for growth as they arise. Aside from an entrepreneurial spirit, one of the core values of LVMH is the drive to surpass ourselves. Excellence is never a foregone conclusion, and complacency is not part of our culture. I believe that our success derives from the fact that each of us, whatever our job, never stops striving to be better and to offer new ideas that will boost the quality of what our Group does.

#### A world of emotions, a special connection with our customers

That quality is what determines customers' loyalty to our brands, above and beyond specific products or stores. The success of the Journées Particulières event, during which our brands opened their legendary workshops to the public, shows the huge interest in our heritage, savoir-faire and traditional craftsmanship. We live in a world of emotions, where the Group's relations with our customers and our shareholders are profound. Because of this special connection, we are also committed to stronger corporate citizenship. We strive to pass on our expertise, to promote diversity and fulfillment among our employees, to coach talent and support young designers, and to protect the sometimes very scarce natural resources used in our products. The world is more and more concerned with such issues, and so are we, for they form the foundation of our Group's future. Together with developing our business, they must serve as a permanent wellspring of creativity. I am particularly pleased to announce the opening later this year of the Louis Vuitton Foundation. We have worked with the architect to make this an exceptional venue and a testament to our patronage of art, through which we intend to help promote French and Parisian culture worldwide. Here too, a passionate path lies ahead of us.

**Bernard Arnault**  
Chairman and Chief Executive Officer

## Financial highlights

#### Revenue (EUR millions)



#### Profit from recurring operations (EUR millions)



#### Basic Group share of net earnings per share (EUR)



#### Operating investments (EUR millions)



#### Free cash flow<sup>(a)</sup> (EUR millions)



(a) Net cash from (used in) operating activities and operating investments.

#### Total equity<sup>(a)</sup> and Financial debt/Total equity ratio (EUR millions and percentage)



(a) Including minority interests.

Further information can be found in the 2013 Reference Document.

## Excellent performance of LVMH in 2013

#### Revenue\*

+8%

\* With comparable structure and constant exchange rates

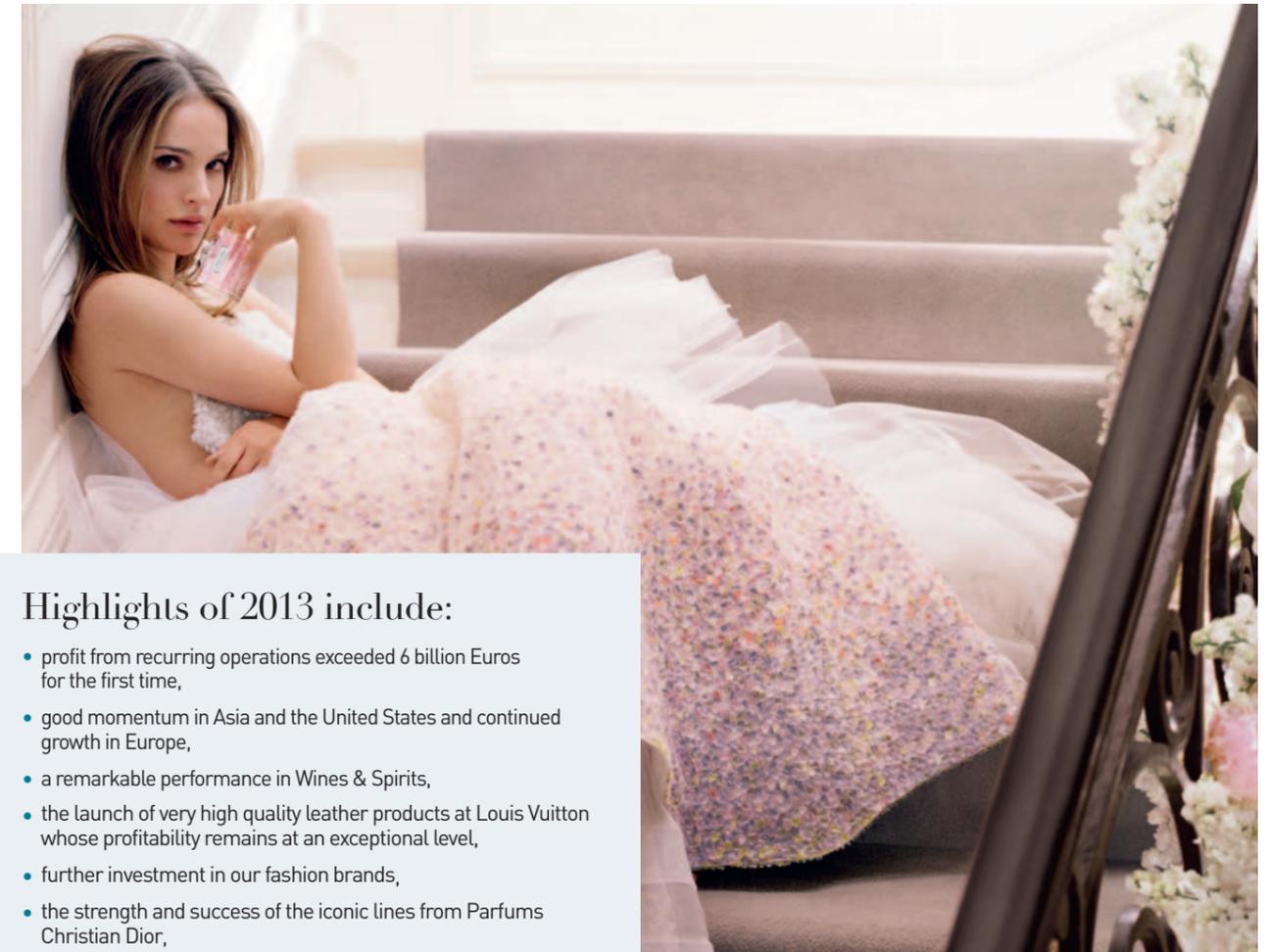
#### Profit from recurring operations

+2%

#### Group share of net profit

3.10€

Amount proposed to the Shareholders' Meeting of April 10, 2014



#### Highlights of 2013 include:

- profit from recurring operations exceeded 6 billion Euros for the first time,
- good momentum in Asia and the United States and continued growth in Europe,
- a remarkable performance in Wines & Spirits,
- the launch of very high quality leather products at Louis Vuitton whose profitability remains at an exceptional level,
- further investment in our fashion brands,
- the strength and success of the iconic lines from Parfums Christian Dior,
- excellent results from Bulgari,
- continued progress at Sephora and DFS, driven by innovation in products and services,
- a 20% increase in free cash flow to 3 billion Euros,
- a gearing ratio of less than 20% at the end of December 2013.

LVMH Moët Hennessy Louis Vuitton, the world's leading luxury products group, recorded revenue of €29.1 billion in 2013, an increase of 4% over the previous year. Organic revenue growth was 8%. The Group maintained good momentum in the United States and Asia, and continued to grow in Europe, despite the challenging economic environment.

With organic revenue growth of 8%, the fourth quarter performance was in line with the trends seen in the first nine months of the year. Profit from recurring operations rose to €6,021 million, an increase of 2% over the strong growth recorded in 2012. Current operating margin reached 21%. Group share of net profit was €3,436 million, in line with 2012 which included a special dividend.

## Confidence for 2014

Despite an uncertain economic environment in Europe, LVMH is well-equipped to continue its growth momentum across all business groups in 2014. The Group will maintain a strategy focused on developing its brands by continuing to build on their 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, LVMH enters 2014 with confidence and has, once again, set an objective of increasing its global leadership position in luxury goods.

# Business Groups

## Wines & Spirits

### Continuation of value creation strategy

The Wines & Spirits business group recorded organic revenue growth of 6% in 2013. Profit from recurring operations increased by 9%. In an environment marked by good momentum in Asia and the United States, and a contrasted market in Europe, the business group continued to reap the rewards of its value creation strategy: a focus on the high-end range, a strict pricing policy and a strong dynamic of innovation. Champagne saw sustained demand for its prestige vintages. Sparkling and still wines from Estates & Wines recorded solid performances. Hennessy cognac's



growth was driven by the American market. Glenmorangie and Ardbeg whiskies recorded rapid increases in volumes. Momentum across all brands was supported by Moët Hennessy's powerful and flexible distribution network and sustained investments.

(EUR millions)	2013	2012
Revenue	4,187	4,137
Profit from recurring operations	1,370	1,260
Operating margin (%)	33	30

## Fashion & Leather Goods

### Strategic development at Louis Vuitton and sustained investment in other brands

The Fashion & Leather Goods business group recorded organic revenue growth of 5% in 2013. Profit from recurring operations decreased by 4%. Over the year, Louis Vuitton maintained its exceptional level of profitability while continuing its quest for excellence with regard to its products as well as its distribution. Among the year's innovations, the *Capucines* model in leather and the *W* bag, which revisits the iconic *Monogram* canvas, both achieved great success. Creative momentum at Louis Vuitton was maintained with the arrival of Nicolas Ghesquière as artistic director for its women's collections,



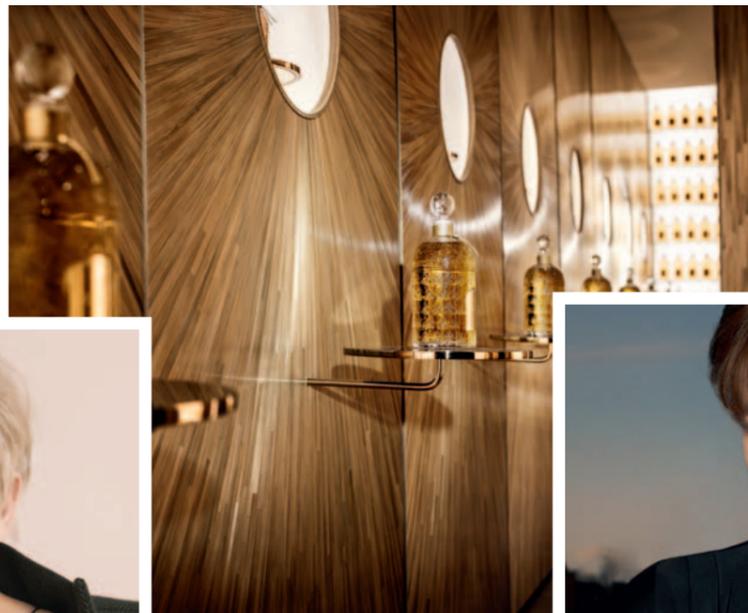
following the move of Marc Jacobs to focus on his eponymous brand. Fendi continued to focus on its high end products and the qualitative expansion of its distribution network. Céline recorded a remarkable performance, reaching a new record in its sales. Other fashion brands such as Kenzo, Berluti and Givenchy continued to strengthen as they harness their creative flair.

(EUR millions)	2013	2012
Revenue	9,882	9,926
Profit from recurring operations	3,140	3,264
Operating margin (%)	32	33

## Perfumes & Cosmetics

### Continued enhancement of iconic lines

The Perfumes & Cosmetics business group outperformed the market by recording organic revenue growth of 7%. Profit from recurring operations increased by 2%. Parfums Christian Dior continued its momentum and



gained market share. The continued vitality of flagship lines like *J'adore*, which strengthened its market leadership notably in France, and *Dior Homme*, the international success of *Rouge Dior* and the development of the skin care *Prestige*, are remarkable. Guerlain continued to grow, supported by its fragrance *La Petite Robe Noire* and the rapid progress of *Orchidée impériale*. Benefit recorded a further year of strong growth. Make Up For Ever and Fresh both achieved particularly strong performances in Asia. The inauguration

of the Hélios research centre at Saint-Jean-de Braye and the reopening of Guerlain's iconic boutique at 68, Champs-Élysées, were some of the major highlights of the year.

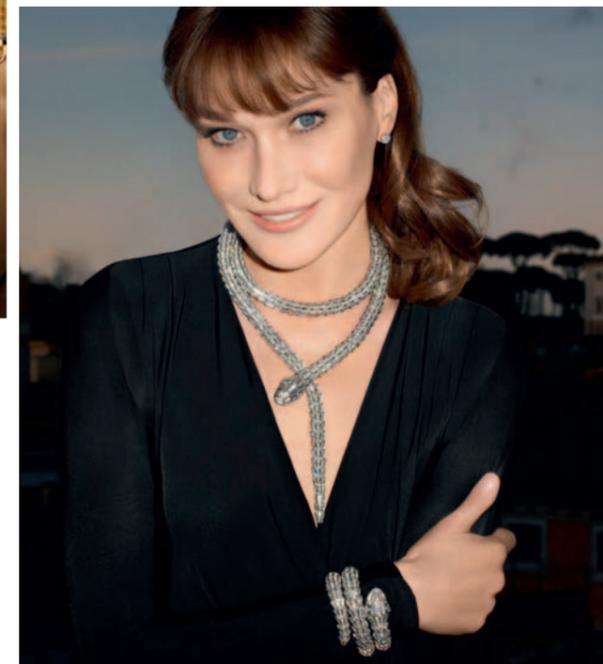
(EUR millions)	2013	2012
Revenue	3,717	3,613
Profit from recurring operations	414	408
Operating margin (%)	11	11

## Watches & Jewelry

### Focus on high-end and strengthened quality of distribution

The Watches & Jewelry business group recorded organic revenue growth of 4% in 2013. Profit from recurring operations rose 12%.

An excellent performance in the directly owned boutiques, where the network continues to expand around the world, contributed to strengthening the image of the brands and the quality of their distribution. The LVMH watch brands continued to invest in innovation and development of industrial capacity, such as the new TAG Heuer movement manufacturing facility. In Jewelry, the success



of Bulgari's *Serpenti* line was confirmed and the new high-end jewelry *Diva* collection achieved excellent results. Presence in multi-brand stores continues to be more selective.

(EUR millions)	2013	2012
Revenue	2,784	2,836
Profit from recurring operations	375	334
Operating margin (%)	13	12

## Selective Retailing

### Innovation continues in both product and service offering

The Selective Retailing business group recorded organic revenue growth of 17% in 2013. Profit from recurring operations increased by 6%.

DFS recorded further strong sales increases, notably reflecting the first full year's integration of three new concessions from the end of 2012 at Hong Kong International airport – each having been the focus of significant investment in upgrading works. The destinations of Hong Kong and Macau maintained strong commercial momentum while the weakness



of the Yen reduced the spending power of Japanese travellers, notably in Hawaii.

Sephora continued to achieve an exceptional performance and gained market share across all its regions. Online revenue is growing well. Innovation, increased personalization of customer relations, and strengthening of service offerings, both in store and online, are at the core of Sephora's strategy. Sephora's exclusive offering has been notably enhanced by the new Marc Jacobs cosmetics line. Sephora continues to expand and upgrade its distribution network around the world and opened its first store in Thailand, a new territory.

(EUR millions)	2013	2012
Revenue	8,938	7,879
Profit from recurring operations	901	854
Operating margin (%)	10	11

# Stock exchange performance

## Changes in the LVMH share price

Stock markets continued to rise in 2013 in response to more positive signs on the economic front, especially in Europe, as well as ongoing highly accommodative monetary policies. In Japan, in particular, the central bank supported the ambitious stimulus package initiated by the government in January to counter the country's deflation. Investors welcomed the initiative, with the Nikkei index climbing 57% in 2013. Looking back over the year, uncertainties that could have weighed on investor confidence (the banking crisis in Cyprus, the Italian elections, the budget debate in the United States) only had a limited impact. The trend was only temporarily affected by the Fed's pre-summer announcement of a possible tapering of economic support measures, which were then pushed back and ultimately accepted by investors as a sign that the US economy was in better health.

After reaching a historic high of €150.05 in trading on September 19, the LVMH share price slid during the last quarter, as did the share price of many players in the luxury goods sector, due to a slowdown in growth in China, and it ended the period down 4.5%. By comparison, the CAC 40 and Eurostoxx 50 indices ended the year up 18.0% and 17.9% respectively. The LVMH share price closed at €132.60 on December 31. LVMH's market capitalization was €67.3 billion, ranking it fifth in the Paris market.

## Dividend increase of 7%

At the Annual Shareholders' Meeting on April 10, 2014, LVMH will propose a dividend of €3.10 per share, an increase of 7%. An interim dividend of €1.20 per share was paid on December 3 of last year. The balance of €1.90 per share will be paid on April 17, 2014.

## Total shareholder return

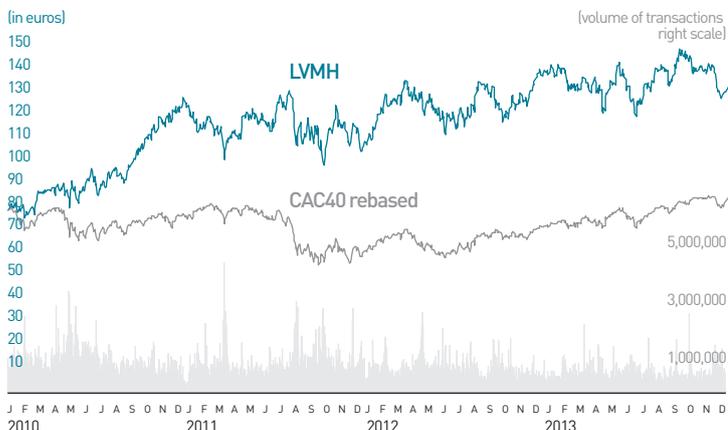
An LVMH shareholder who invested €1,000 on January 1, 2009 would have capital of €3,103 on December 31, 2013, based on reinvested dividends. In five years, his or her investment would have given them an average annual return of around 25%.

## Capital and voting rights

At December 31, 2013	Number of shares	Number of voting rights <sup>(a)</sup>	% of capital	% voting rights
Arnault family group	235,891,303	453,993,736	46.45%	62.59%
Other	271,902,358	271,315,929	53.55%	37.41%
<b>Total</b>	<b>507,793,661</b>	<b>725,309,665</b>	<b>100.00%</b>	<b>100.00%</b>

(a) Total number of voting rights that may be exercised at Shareholders' Meetings.

## Comparison between the LVMH share price and the CAC 40 since 01/04/10



# Shareholder relations

## The website

The LVMH website gives access to a wide range of regularly updated information on the Group and its brands. A section is specially aimed at the financial community and LVMH shareholders. Information in this section includes the share price in real time, a comparison of its progression against the CAC 40, the events schedule (revenue and results announcements, Shareholders' Annual General Meetings, dividend payments), press releases and presentations, notably that of the Shareholders' AGM which can be seen live or in a recorded version.

Communications media can be viewed in the Documentation section along with the annual report and registration 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. 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 the event.

## The Shareholders' Club

Dedicated to individual shareholders who show a special interest in what is happening in the Group, the LVMH Shareholders' Club gives its members a better understanding of the Group, its businesses and its brands, and the ties they maintain with the arts and culture.



Through the Club membership magazine "Apartés," members may order products for delivery to addresses in France. It also offers subscriptions to "Les Échos", "Investir", and "Connaissance des Arts" at preferential rates. Members are also provided special access to certain places suitable for visits (such as wineries and wine cellars). They also benefit from VIP passes to art exhibits supported by LVMH.

Shareholders' Club members receive an individual membership card with a personal authentication number which is valid for two years.

**Shareholders' Club: +33 1 44 13 21 50**

## Calendar

<b>Thursday, April 10, 2014</b>	Annual Shareholder's Meeting
<b>April 2014</b>	Publication of 2014 first-quarter revenue
<b>April 17, 2014</b>	Payment of the balance of the dividend for 2013 <sup>(a)</sup>
<b>July 2014</b>	Publication of 2014 half-year revenue and results
<b>October 2014</b>	Publication of 2014 first-quarter revenue

(a) last trading day with dividend rights: April 11, 2014.