REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

This report, drawn up in accordance with the provisions of Article L.225-37 of the French Commercial Code, was approved by the Board of Directors at its meeting of January 26, 2017.

Its purpose is notably to give an account of the membership of the Board of Directors of the Company, the preparation and organization of its work, the compensation policy applied to senior executives and company officers, as well as the risk management and internal control procedures established by the Board and in particular the procedures relating to the preparation and processing of accounting and financial information.

1. CORPORATE GOVERNANCE

1.1. Board of Directors

The Board of Directors is the strategic body of the Company which is primarily responsible for enhancing the Company's value and protecting its corporate interests. Its main missions involve the adoption of overall strategic orientations of the Company and the Group and ensuring these are implemented, the verification of the truthfulness and reliability of information concerning the Company and the Group and the overall protection of the Company's assets.

The Board of Directors of LVMH Moët Hennessy - Louis Vuitton acts as guarantor of the rights of each of its shareholders and ensures that shareholders fulfill all of their duties.

A Charter has been adopted by the Board of Directors which outlines rules governing its membership, duties, procedures, and responsibilities.

Three committees have been established by the Board of Directors: the Performance Audit Committee, the Nominations and Compensation Committee, and the Ethics and Sustainable Development Committee. Each has internal rules setting forth its composition, role and responsibilities.

The Charter of the Board of Directors and the internal rules governing the committees are communicated to all candidates for appointment as Director and to all permanent representatives of a legal entity before assuming their duties. These documents are presented in full in the "*Other information* – Governance" section. They are regularly amended to take into account changes in laws and regulations and good governance practices.

Pursuant to the provisions of the Board of Directors' Charter, all Directors must bring to the attention of the Chairman of the Board any instance, even potential, of a conflict of interest that may exist between their duties and responsibilities to the Company and their private interests and/or other duties and responsibilities. They must also provide the Chairman with details of any formal judicial inquiry, fraud conviction, any official public incrimination and/or sanctions, any disqualifications from acting as a member of an administrative or management body imposed by a court and any bankruptcy, receivership or liquidation proceedings to which they have been a party. No information has been communicated with respect to this obligation.

The Company's Bylaws require each Director to hold, directly and personally, at least 500 of its shares.

1.2. Code of corporate governance – implementation of recommendations

The Company refers to the AFEP/MEDEF Code of Corporate Governance for Listed Companies for guidance. This document may be viewed on the AFEP/MEDEF website: www.afep.com.

The Company applies the recommendations of that code, subject,

- in the case of the assessment of Directors' independence, to criteria set *in abstracto* concerning length of service, as specified in §1.3 "Membership and missions";
- for authorizations to issue options or performance shares, to setting a cap on allocations to senior executive officers in the resolutions, as specified in §1.12 "Compensation policy for company officers".

1.3. Membership and missions

• At its meeting of January 26, 2017, the Board of Directors (i) considered the directorships of Delphine Arnault, Marie-Josée Kravis, Marie-Laure Sauty de Chalon, Nicolas Bazire, Antonio Belloni, Diego Della Valle and Pierre Godé, all of which are due to expire at the close of the Shareholders' Meeting of April 13, 2017, and (ii) decided to submit a resolution to the shareholders at that Shareholders' Meeting to reappoint Delphine Arnault, Marie-Josée Kravis, Marie-Laure Sauty de Chalon, Nicolas Bazire, Antonio Belloni and Diego Della Valle as Directors. The Board also decided to submit a resolution to the shareholders at that same Shareholders' Meeting to appoint Pierre Godé and Albert Frère (who has resigned as a Director) as Advisory Board members.

At the same meeting, the Board considered the terms of office of Paolo Bulgari, Patrick Houël and Felix G. Rohatyn as Advisory Board members, all of which are due to expire at the close of the Shareholders' Meeting of April 13, 2017, and decided to submit a resolution at that Shareholders' Meeting to reappoint Paolo Bulgari.

Directors are appointed for three-year terms, as stipulated in the Bylaws. To make the renewal of Directors' appointments as egalitarian as possible, and in any event to make them complete for each three-year period, the Board of Directors set up a system of rolling renewals that has been in place since 2010.

Since the Company meets the conditions laid down in the French Commercial Code making it eligible for the exemption applicable to holding companies, it is not subject to the requirement to appoint Directors representing employees.

• Subject to decisions made at the Shareholders' Meeting of April 13, 2017, the Board of Directors will thus consist of fifteen members: Delphine Arnault, Bernadette Chirac, Clara Gaymard, Marie-Josée Kravis, Marie-Laure Sauty de Chalon, Natacha Valla, Bernard Arnault, Antoine Arnault, Nicolas Bazire, Antonio Belloni, Charles de Croisset, Diego Della Valle, Yves-Thibault de Silguy, Hubert Védrine and Lord Powell of Bayswater.

Since each gender is represented by at least 40% of Board members, the composition of the Board will comply with the provisions of the French Commercial Code relating to gender equality on boards of directors.

Personal information relating to the Directors is included in the "*Other information* – Governance" section.

Bernard Arnault (Chairman and Chief Executive Officer) and Antonio Belloni (Group Managing Director) do not hold more than two directorships at non-Group listed companies, including foreign companies.

During its meeting of January 26, 2017, the Board of Directors reviewed the status of each Director currently in office, in particular with respect to the independence criteria set forth in the AFEP/MEDEF Code, and found that:

(i) Bernadette Chirac, Clara Gaymard, Marie-Josée Kravis, Marie-Laure Sauty de Chalon, Natacha Valla, Charles de Croisset and Yves-Thibault de Silguy meet all these criteria;

(ii) Diego Della Valle and Hubert Védrine, who have served on the Board of Directors for over 12 years, must be considered independent. In the matter of these two individuals, the Board has set aside the criterion set out in the AFEP/MEDEF Code with respect to their length of service as Board members, considering that this is not likely to cloud their critical faculties or color their judgment, given both their experience and status and their current personal and professional circumstances. Moreover, their in-depth knowledge of the Group is an invaluable asset during major strategic decision-making.

Subject to decisions made at the Shareholders' Meeting of April 13, 2017, nine out of the fifteen Directors who make up the Board of Directors are thus considered to be independent and to hold no interests in the Company. They represent 60% of the Board's membership. With respect to the criteria set out in the AFEP/MEDEF Code, 47% of the members of the Board of Directors may be considered independent, thus exceeding the Code's recommendation for controlled companies that one-third of Board members be independent.

• During fiscal year 2016, the Board of Directors met four times, convened by its Chairman. Directors' attendance rate at these meetings averaged 87%.

The Board approved the annual and interim consolidated and parent company financial statements, reviewed quarterly activity and expressed its opinions on subjects including the Group's strategic direction and decisions, its budget, compensation payable to company officers, the establishment of a plan to grant bonus shares and bonus performance shares, and the implementation of the share repurchase program. It authorized the Company to act as guarantor for the commitments and obligations entered into by the Group in connection with the acquisition of Rimowa.

It renewed the authorizations granted to (i) the Chairman and Chief Executive Officer to give guarantees to third parties and (ii) the Chairman and Chief Executive Officer and the Group Managing Director to issue bonds. It also examined the regulated agreements that remained in effect during the fiscal year and authorized amendments to various regulated agreements, in particular those entered into with related companies. In addition, it approved measures adopted by the Company to ensure the safety of the Chairman and his family.

It also conducted an evaluation of its capacity to meet the expectations of shareholders, reviewing its membership, its organization, and its procedures.

Additionally, it made changes to the composition of the Performance Audit Committee and the Nominations and Compensation Committee. The Board also established an Ethics and Sustainable Development Committee, appointed this new Committee's members, and adopted the internal rules setting forth its duties, responsibilities and operating procedures.

The Board also decided, in accordance with Article L.225-42-1 of the French Commercial Code, on the performance conditions to be met in order for the Chairman and Chief Executive Officer and Group Managing Director to be eligible to receive their supplementary pensions upon retirement and noted that, given the features of the defined benefit pension plan set up by the Company and the fact that the personal situations of Bernard Arnault and Antonio Belloni no longer entitled them to receive additional annual benefits, the requirement that the vesting of the annual benefits under these plans be subordinated to the fulfillment of conditions relating to their performance achievements no longer applies.

In addition, the Board of Directors reviewed the Group's policy to protect against the impact of future economic and financial developments.

Lastly, the Board was informed of the measures the Group has adopted as regards gender equality and equal pay.

• At its meeting of January 26, 2017, the Board of Directors reviewed its composition, organization and *modus operandi*. The Board concluded that its composition is balanced with regard to the proportion of External Directors, given the ownership of the Company's share capital, and with regard to the diversity and complementarity of its members' expertise and experience.

The Board noted that:

- the Directors are satisfied with the frequency of Board meetings and the quality of information provided on such topics as strategic direction, current business activity, financial statements, the budget and the three-year plan;
- Directors' attendance declined slightly relative to 2015, but remained high;
- the gender balance, presence of non-French nationals and Directors' areas of expertise ensure a wide range of approaches and views, as is essential to a global group;
- the Board is fulfilling its role with respect to its missions and objectives of increasing the Company's value and protecting its interests;
- the Directors have no particular comments to make on the rules for allocating directors' fees or the minimum number of shares that each Director must hold; this also applies to the composition of the three Committees and the quality of their work.

It also amended (i) the internal rules of the Performance Audit Committee in order to bring its duties and responsibilities in line with new regulatory provisions and to amend the procedures for appointing the Committee's Chairman as well as the length of his/her term of office and (ii) the internal rules of the Nominations and Compensation Committee, expanding its remit to include appointing the Chairman of the Performance Audit Committee.

In addition, the Board of Directors reviewed the Group's policy to protect against the impact of future economic and financial developments.

1.4. Executive Management

Bernard Arnault has been Chairman and Chief Executive Officer of the Company since 1989. The Board of Directors has not limited the powers vested in the Chief Executive Officer.

The Board of Directors came to the conclusion that the combined role of Chairman and Chief Executive Officer was suited to the Company's specific shareholding structure, and furthermore enabled more rapid decision-making. Consequently, it decided not to dissociate the roles of Chairman and Chief Executive Officer. In September 2001, in response to the proposal of the Chairman and Chief Executive Officer, the Board appointed Antonio Belloni as Group Managing Director. The Group Managing Director has the same powers as the Chief Executive Officer.

At its meeting of April 14, 2016, the Board of Directors reappointed Bernard Arnault as Chairman and Chief Executive Officer and, at the proposal of the latter, reappointed Antonio Belloni as Group Managing Director.

The balance of powers within the Board of Directors is ensured by (i) the provisions of the Charter of the Board of Directors and the rules governing the three committees formed by it, which specify the duties of each of those Committees, and (ii) their composition. More than a third of the Directors on the Board are Independent Directors. Furthermore, (i) the Nominations and Compensation Committee consists entirely of Independent Directors and (ii) two-thirds of the members of both the Performance Audit Committee and the Ethics and Sustainable Development Committee are Independent Directors.

1.5. Performance Audit Committee

The main tasks of the Performance Audit Committee are the monitoring of the process of preparing financial information, the effectiveness of internal control and risk management procedures, as well as the statutory audit of the individual company and consolidated financial statements by the Statutory Auditors. The Committee oversees the procedure for the selection of Statutory Auditors and ensures their independence.

The Committee consists of three members appointed by the Board of Directors: Yves-Thibault de Silguy (Chairman), who has notably served as European Commissioner for Economic and Monetary Affairs, a trustee of the IFRS Foundation and CEO of Suez; Antoine Arnault, Chairman of the Executive Board of Berluti and Chairman of the Board of Directors of Loro Piana; and Charles de Croisset, who has successively held senior management positions at CCF, HSBC Holdings plc and Goldman Sachs International. By virtue of their professional experience (see also the "*Other information* – Governance" section: "Principal positions and offices of members of the Board of Directors") and their familiarity with financial and accounting procedures applicable to corporate groups, Yves-Thibault de Silguy, Antoine Arnault and Charles de Croisset have the expertise necessary to fulfill their responsibilities.

Two-thirds of the Committee's members are Independent Directors, as recommended by the AFEP/MEDEF Code.

The Performance Audit Committee met four times in fiscal year 2016, with all of its members in attendance. All of these meetings were held without any members of the Company's Executive Management in attendance. The meetings to examine the financial statements were held no later than two days before the examination of the financial statements by the Board of Directors.

These meetings were also attended by the Statutory Auditors, Chief Financial Officer, Deputy Chief Financial Officer, Audit and Internal Control Director, Tax Director, Deputy Tax Director, Director of Legal Affairs and, depending on the issues discussed, the Financing and Treasury Director, Risk Management Director, Operations Director and relevant heads of departments or subsidiaries.

Besides reviewing the annual and interim parent company and consolidated financial statements, in conjunction with a detailed analysis of changes in the Group's activities and scope of consolidation, the Committee's work mainly focused on the following points: internal control and management of major risks at a certain Group subsidiaries, management of foreign exchange risk, internal control and management of major risks, and issues concerning the valuation of brands and goodwill. Presentations on these points were made by the Group's Chief Financial Officer or by relevant heads of departments or subsidiaries. The Committee made recommendations on the terms of office of Statutory Auditors due to expire at the close of the Shareholders' Meeting of April 14, 2016. It supervised the Statutory Auditor selection procedure and recommended the reappointment or replacement of currently serving Statutory Auditors. Lastly, it was informed by the Statutory Auditors of the impact of the EU audit reform on their work and on the role of the Performance Audit Committee as regards monitoring of the process of preparing financial information and of the Statutory Auditors' performance of their duties.

As part of the review of the parent company and consolidated financial statements, the Statutory Auditors gave a presentation covering, in particular, internal control and the main audit issues identified, the scope of their work, and the different types of audits conducted at the subsidiaries. In addition, for fiscal year 2016, the Statutory Auditors opted for early application of the EU audit reform and presented the Audit Committee with the additional report provided for by this reform, which becomes mandatory for LVMH starting in fiscal year 2017.

It was given the Statutory Auditors' independence declaration as well as the amount of the fees paid to the Statutory Auditors' network by companies controlled by the Company or the entity that controls it, in respect of services not directly related to the Statutory Auditors' engagement, and was informed of the services provided in respect of work directly related to the Statutory Auditors' engagement.

1.6. Nominations and Compensation Committee

The main responsibilities of the Nominations and Compensation Committee are to issue:

- proposals on compensation, benefits in kind, bonus shares and share subscription or purchase options for the Chairman of the Board of Directors, the Chief Executive Officer and the Group Managing Director(s) of the Company, as well as on the apportionment of directors' fees paid by the Company;
- opinions on candidates for the positions of Director, Advisory Board member, Group Executive Committee member or member of Executive Management of the Company's main subsidiaries.

The Committee consists of three members appointed by the Board of Directors: Charles de Croisset (Chairman), Marie-Josée Kravis and Yves-Thibault de Silguy.

All of the Committee's members are Independent Directors, a proportion exceeding that recommended by the AFEP/MEDEF Code, which states that a majority of members should be Independent Directors. The Nominations and Compensation Committee met twice in fiscal year 2016: once with two-thirds of its members in attendance and once with all of its members in attendance. In particular, it (i) issued proposals on the fixed and variable components of compensation paid to the Chairman and Chief Executive Officer and the Group Managing Director, the granting of performance shares to those two individuals and the requirement to retain possession of a portion of any vested shares; (ii) reviewed the performance of the Chairman and Chief Executive Officer and the Group Managing Director in light of their quantitative and qualitative targets; (iii) gave its opinion on compensation, performance shares and benefits in kind granted to certain Directors by the Company and its subsidiaries; (iv) reviewed the medium-term discretionary profit-sharing plan offered to certain executives of subsidiaries; and (v) examined the table setting out directors' fees paid to Directors and Advisory Board members in fiscal year 2015.

In addition, the Committee issued an opinion on the status of all members with regard, in particular, to the independence criteria set forth within the AFEP/MEDEF Code. It issued an opinion on the reappointment of Directors whose terms of office were due to expire at the close of the Shareholders' Meeting of April 14, 2016 and on candidacies for appointments to the Board. It examined measures adopted by the Company to ensure the safety of the Chairman and his family.

Prior to the Board meeting of January 26, 2017, the Committee reviewed the Company's executive compensation policy and decided that no changes were necessary. It also reviewed the fixed compensation paid to executive company officers and found that there were no grounds for any changes. It examined the criteria established for determining the amount of their variable compensation and made recommendations, notably on variable compensation to be paid in respect of 2016 (i) to the Chairman and Chief Executive Officer and the Group Managing Director, which it proposed to maintain at the same level as for 2015, and (ii) to Directors receiving compensation from the Company or its subsidiaries, as well as on fixed compensation in respect of 2017 and variable compensation in respect of 2016 to be received by those same Directors.

It also examined all of the terms of office of Directors and Advisory Board members due to end in 2017 and expressed a favorable opinion regarding (i) the renewal of the terms of office of Delphine Arnault, Marie-Josée Kravis, Marie-Laure Sauty de Chalon, Nicolas Bazire, Antonio Belloni and Diego Della Valle as Directors and of the term of office of Paolo Bulgari as Advisory Board member as well as (ii) the appointment of Pierre Godé and Albert Frère (who has resigned as Director) as Advisory Board members. It proposed that the Board reappoint Yves-Thibault de Silguy as Chairman of the Performance Audit Committee.

1.7. Ethics and Sustainable Development Committee

At its meeting of April 14, 2016, the Board of Directors decided to establish an Ethics and Sustainable Development Committee, whose main duties are to:

- ensure compliance with the rules and values defined by the LVMH Code of Conduct as well as the other codes and charters resulting from this Code;
- contribute to the definition of rules of conduct or principles for action on which the Group's executives and employees must base their behavior in line with ethical standards as well as the Group's approach to corporate social responsibility;
- review the ethical, environmental, workforce-related and social responsibility issues faced by the Group;
- review the environmental, workforce-related and social information contained in the "*Management Report of the Board of Directors*" and submit its opinion on this information to the Board;
- monitor the functioning of whistle-blowing systems put in place within the Group.

The Committee consists of three members appointed by the Board of Directors: Yves-Thibault de Silguy (Chairman), Delphine Arnault and Marie-Laure Sauty de Chalon.

Two of its members are Independent Directors.

The Committee met once during the year, with two of its members in attendance. During this meeting, the Director of Environmental Affairs presented an overview of the Group's activities in relation to the environment, covering in particular the manner in which strategic issues are being taken into account, recent achievements, sources of innovation, and the safeguarding of raw materials and assets. In addition, the Director of Legal Affairs presented the proposed revision of the Group's Code of Conduct.

1.8. Vice-Chairman of the Board of Directors

The Vice-Chairman is responsible for chairing the meetings of the Board of Directors or the Shareholders' Meeting in the absence of the Chairman of the Board of Directors. Pierre Godé has been Vice-Chairman since March 31, 2011.

1.9. Advisory Board

Advisory Board members are invited to meetings of the Board of Directors and are consulted for decision-making purposes, although their absence cannot undermine the validity of the Board of Directors' deliberations.

They are appointed by the Shareholders' Meeting on the proposal of the Board of Directors and are chosen from among the shareholders on the basis of their competences.

The Advisory Board currently has three members: Paolo Bulgari, Patrick Houël and Felix G. Rohatyn.

1.10. Participation in Shareholders' Meetings

The terms and conditions of participation by shareholders in Shareholders' Meetings, and in particular conditions for the allocation of dual voting rights to the holders of registered shares, are laid down in Article 23 of the Bylaws (see the "*Other information* – Governance" section).

1.11. Information that could have a bearing on a takeover bid or exchange offer

Information that might have a bearing on a takeover bid or exchange offer, as required by Article L.225-100-3 of the French Commercial Code, can be found in the "Parent company: LVMH Moët Hennessy - Louis Vuitton" section of the "*Management Report of the Board of Directors*".

1.12. Compensation policy for company officers

Directors' fees paid to the members of the Board of Directors

The Shareholders' Meeting shall set the total amount of directors' fees to be paid to the members of the Board of Directors. This total, annual amount has been set at 1,260,000 euros since the Shareholders' Meeting of April 5, 2012. It is divided among the Directors and the members of the Advisory Board, in accordance with the rule defined by the Board of Directors, based on the proposal submitted by the Nominations and Compensation Committee, namely:

(i) two units for each Director or member of the Advisory Board;

(ii) one additional unit for serving as a Committee member;

(iii) two additional units for serving as both a Committee member and a Committee Chairman;

(iv) two additional units for serving as either Chairman or Vice-Chairman of the Company's Board of Directors;

With the understanding that the amount corresponding to one unit is obtained by dividing the overall amount allocated to be paid as directors' fees by the total number of units to be distributed.

A portion of the directors' fees to be paid to its members is contingent upon their attendance at meetings of the Board of Directors and, where applicable, at those of the Committees to which they belong. A reduction in the amount to be paid is applied to two-thirds of the units described under (i) above, proportional to the number of Board meetings the Director in question does not attend. In addition, for Committee members, a reduction in the amount to be paid is applied to the additional fees mentioned under (ii) and (iii) above, proportional to the number of Committee meetings the Director in question does not attend.

In respect of fiscal year 2016, LVMH paid a total gross amount of 1,128,125 euros in directors' fees to the members of its Board of Directors.

The Nominations and Compensation Committee is kept informed of the amount of directors' fees paid to senior executive officers by the Group's subsidiaries in which they perform the role of company officers.

Other compensation

Compensation of senior executive officers is determined with reference to principles listed in the AFEP/MEDEF Code.

Compensation and benefits awarded to senior executive officers are mainly determined on the basis of the degree of responsibility ascribed to their missions, their individual performance, as well as the Group's performance and the achievement of targets. This determination also takes into account compensation paid by similar companies with respect to their size, industry segment and the extent of their international operations.

A portion of the compensation paid to senior executive officers is based on the achievement of both financial and qualitative targets. For the Chairman and Chief Executive Officer, these quantitative and qualitative targets are equally weighted for the purposes of determining the bonus; for the Group Managing Director, they are weighted two-thirds and one-third, respectively. The financial criteria are growth in revenue, operating profit and cash flow as compared to the budget, with each of these items representing one-third of the total determination. The qualitative criteria have been precisely established but are not made public for reasons of confidentiality. Given the choice made to keep fixed compensation amounts steady, the variable portion is capped at 250% of the fixed portion for the Chairman and Chief Executive Officer and at 150% of the fixed portion for the Group Managing Director.

The breakdown of compensation and benefits awarded to the Chairman and Chief Executive Officer, and the Group Managing Director, is presented in the "*Management Report of the Board of Directors* – Parent company: LVMH Moët Hennessy - Louis Vuitton" section.

Pursuant to the provisions of Article L.225-42-1 of the French Commercial Code, at its meeting on February 4, 2010, the Board of Directors approved the non-compete clause included in Antonio Belloni's employment contract – suspended during the duration of his mandate as Group Managing Director; this commitment not to compete for a twelve-month period provides for the payment of a monthly compensation equal to his monthly remuneration on the termination date of his functions, which would be supplemented by one twelfth of the last bonus received. Article 21 of the AFEP/MEDEF Code revised in November 2016, recommending that an employee's employment contract be terminated when that employee is appointed a senior executive officer, does not apply to the Group Managing Director, a role in which Antonio Belloni has served since September 26, 2001.

Notwithstanding this clause, no other senior executive officer of the Company currently benefits from provisions granting them a specific compensation payment should they leave the Company or derogations from the rules governing the exercise of options or the vesting of bonus shares subject to performance conditions. Senior executive officers or employees are eligible for stock option or bonus share plans instituted by the Company. The information relating to the allocation terms and conditions of these plans is presented in the "*Management Report of the Board of Directors* – Parent company: LVMH Moët Hennessy - Louis Vuitton" section. In the resolutions put to the vote at the Shareholders' Meeting, the Board of Directors decided not to include a cap on the allocation of options or bonus performance shares to senior executive officers, considering that the Nominations and Compensation Committee – which consists entirely of Independent Directors and is tasked with making proposals on the granting of options or bonus performance shares to senior executives – ensures an adequate degree of control over allocation policy. Bonus performance shares allocated to senior executive officers in 2016 represent 7.37% of total allocations.

In relation to options granted under plans set up since 2007 and bonus performance shares granted under plans set up since 2010, if the Chairman and Chief Executive Officer and the Group Managing Director decide to exercise their options or if their shares vest, they are required to retain possession, in pure registered form and until the conclusion of their respective terms in office, of a number of shares under the terms and conditions defined by the plans and detailed in the "Parent company: LVMH Moët Hennessy-Louis Vuitton" section of the "*Management Report of the Board of Directors*".

Furthermore, the Charter of the Board of Directors forbids senior executive officers from using hedging transactions on their share purchase or subscription options or their performance shares until the end of the holding period set by the Board.

The members of the Group's Executive Committee who are employees or senior executive officers of French subsidiaries, and who have been members of the Committee for at least six years, are entitled to a supplementary pension provided that they liquidate any pensions acquired under external pension plans immediately upon terminating their duties in the Group. This is not required however, if they leave the Group at the latter's request after the age of 55 and resume no other professional activity until their external pension plans are liquidated. This supplementary retirement benefit is determined on the basis of a reference remuneration amount equal to the average of the three highest amounts of annual remuneration received during the course of their career with the Group, capped at 35 times the annual social security ceiling (i.e. 1,351,560 euros as of December 31, 2016). The annual supplementary retirement benefit is equal to the difference between 60% of the reference remuneration amount (i.e. 810,936 euros as of December 31, 2016) and all pension payments made in France (under the general social security regime and the ARRCO and AGIRC supplementary regimes) and abroad. On the basis of compensation paid to senior executive officers in 2016, the supplementary pension benefit payable to them would not exceed 45% of the amount of their last annual compensation, in accordance with the recommendations set out in the AFEP/MEDEF Code. Increases in provisions for these supplementary retirement benefits in 2016 are included in the amount shown for post-employment benefits under Note 32.5 to the consolidated financial statements.

An exceptional remuneration may be awarded by the Board of Directors to certain Directors, with respect to any specific mission with which they have been entrusted. The amount shall be determined by the Board of Directors and reported to the Company's Statutory Auditors.

2. IMPLEMENTATION OF RISK MANAGEMENT AND INTERNAL CONTROL PROCEDURES

2.1. Definitions and objectives of risk management and internal control

2.1.1. Framework

This section of the report and plan draw upon the Reference Framework issued by the AMF on July 22, 2010 relating to processes for monitoring the effectiveness of risk management and internal control systems.

With more specific regard to internal control, the Group uses an internal reference guide which is consistent with COSO principles (Committee of Sponsoring Organizations of the Treadway Commission) according to the latest version (2013).

2.1.2. Definition and objectives of risk management

According to the definition set out in the AMF's reference framework, risk represents the possibility of an event occurring that could affect the Company's personnel, assets, environment, objectives or reputation. The Group has defined "major" risks as risks with the potential to jeopardize the continuity of operations and/or the achievement of strategic objectives, and/or the Group's reputation.

The objectives of risk management are to:

- protect the value, assets and reputation of the Group and, in particular, its brands;
- enhance the security of decision-making and operational processes, by providing a comprehensive, objective and shared view of the Group's potential threats and opportunities;
- ensure that all employees embrace a shared view of the principal risks and challenges surrounding the Group's business.

2.1.3. Definition and objectives of internal control

Internal control refers to a set of control procedures and actions tailored to the specific characteristics of each of the Group's businesses, and which:

- contribute to the management and effectiveness of the Group's operations and the efficient use of its resources;
- must take appropriate account of material operational, financial and legal risks.

Internal control aims to provide reasonable assurance with respect to the achievement of the following objectives:

- compliance with applicable laws and regulations;
- implementation of instructions and guidelines laid down by the Group's Executive Management and the management of operational units (Group companies or brands and their subsidiaries);
- the proper functioning of internal processes, especially those relating to the protection of assets and brand value;
- the reliability and integrity of financial and operational information.

2.1.4. Limitations

No matter how well designed and applied, the risk management and internal control system can only provide reasonable (not absolute) assurance that the Group's overall risks and objectives are properly managed. Internal control is subject to inherent limitations as a result of uncertainties in the international environment, the judgment required to choose between costs and opportunities, and potential problems caused by human error or failure.

The structure of the Group, consisting of a large number of subsidiaries of varying sizes, is a particular risk factor.

2.2. Organization and stakeholders of risk management and internal control systems

2.2.1. Organization of the system

LVMH comprises five main business groups: Wines and Spirits, Fashion and Leather Goods, Perfumes and Cosmetics, Watches and Jewelry, and Selective Retailing. Other activities mainly consist of the media business unit, luxury yacht building and marketing, hotel and real estate activities, and holding companies. These business groups consist of entities of various sizes that own prestigious brands, established on every continent. The autonomy of the brands, decentralization and the responsibilities of senior executives are among the fundamental principles underlying the Group's organization.

The risk management and internal control policies applied across the Group is based on the following organizational principles:

- the holding companies – including the parent company, LVMH SE – are responsible for their own risk management and internal control systems. LVMH SE also acts as leader and coordinator on behalf of all LVMH group companies; it provides them with a single reference framework and methodology as well as an application platform that centralizes all risk and internal control data (see §2.4.1 below);
- the President of each Group company is responsible for risk management and internal control at all subsidiaries that contribute to brand development worldwide; each subsidiary's President is similarly responsible for that subsidiary's own operations.

2.2.2. Elements of the overall compliance framework

The Group's ethical values

The Group has always expressed its commitment to integrity and ethical behavior in its relationships with customers, suppliers, employees and other business partners; it demands clear organizational structures, responsibilities and authorities defined and formalized in accordance with the principle of segregation of duties, regular appraisals of staff performance, and a commitment to skills management and the professional development of Group employees.

These ethical and governance principles are set out in the LVMH Code of Conduct, the Supplier Code of Conduct and the LVMH Environmental Charter, all of which are available from the corporate website www.lvmh.com. These charters and codes serve as a common foundation and a source of inspiration for all of the Group's brands. The Group oversees the proper application of these principles at Group companies and the implementation of their own codes of conduct, supplier charters, procedures for declaring conflicts of interest, and delegation matrices that outline the responsibilities and powers of each employee.

At the initiative of the Chairman and Executive Management, a working group, bringing together the relevant departments of the holding company, was formed in 2016. The aim of this working group is to anticipate future legal and regulatory developments and to establish ever more stringent ethical and governance standards for the Group. The working group's leaders will in future play a central role in the definition, rollout, adoption, supervision and control of systems designed to ensure that all Group activities are standards-compliant.

Skills and talent management

Skills management is a significant aspect of internal control. LVMH devotes special care to matching employee profiles and responsibilities, formalizing annual performance reviews, developing skills through continuing training, and promoting internal mobility. More information can be found in the Reference Document, under §6 of the "*Management Report of the Board of Directors* – Human resources".

Fraud prevention

Over the past few years, fraud risk has dramatically transformed, with an upsurge in fraud through identity theft and an increase in attacks using social engineering to gain access and steal data. The Group and its companies have stepped up their vigilance, adapting internal procedures, awareness campaigns and training programs to the changing scenarios encountered or that might reasonably be predicted.

Given the large number of controls intended to prevent and detect this risk, the internal control framework is the backbone of the Group's fraud prevention mechanism.

Another essential component of this system is the obligation for each entity to report any instances of actual or attempted fraud to the Audit and Internal Control Director: as well as supervising actions and decisions in response to each reported case, the Director endeavors to draw lessons from incidents so as to relay them, once anonymized, to the chief financial officers of all Group companies.

The Audit and Internal Control Department has therefore introduced a program to raise awareness of the risk of fraud through periodic communiqués identifying scenarios of actual and attempted fraud within the Group. For each scenario a prevention plan is presented. Group companies and subsidiaries must check that appropriate measures are in place to prevent such scenarios. These communiqués are disseminated widely within the Group to ensure ongoing awareness among those staff most exposed to this risk.

Internal standards and procedures

Through its Finance Intranet, the Group provides access to all rules and procedures concerning accounting and financial information, applicable to all subsidiaries: notably procedures applying to accounting policies and standards, consolidation, taxation, investments, reporting (budgets and strategic plans), cash management and financing (cash pooling, foreign exchange and interest rate hedging, etc.); these procedures also specify the format, content and frequency of financial reporting.

The Finance Intranet is also used for the dissemination of internal control principles and best practices:

- a concise guide, "Internal Control Essentials", which sets out the foundations of the general environment and the salient features of key processes: Sales, Retail Sales, Purchases, Inventory, Financial Statements Closing and Information Systems (general IT controls);
- the LVMH internal control framework, which covers 12 key business processes: Sales, Retail Sales, Purchases, Licenses, Travel, Inventory, Production, Cash Management, Fixed Assets, Human Resources, Information Systems and Accounting Period-End Procedures. Special processes have been developed to reflect the specific characteristics of certain activities (*Eaux-de-vie* and Vineyard Land for Wines and Spirits, End-of-Season Operations for Fashion and Leather Goods, Concessions for Duty-Free Businesses). This reference guide details the expected key controls for each risk;
- best practice and tools relating to issues that the Group considers important: fraud, conflicts of interest, delegations of authority, business continuity planning, IT disaster recovery planning, IT security policies and guidelines, segregation of duties, control of media spend, and in-store best practices.

The "Major Risks" section of the Finance Intranet brings together procedures and tools for assessing, preventing and protecting against such risks. Best practices for the operational risk families selected are also available on the site. These materials may be accessed by all personnel involved in the application of the Group's risk management.

In addition, on the LVMH Voices website, the Group's Legal Affairs Department provides an overview of legislation in place within the Group's principal markets, relating both to the prevention of money laundering and to limitations applicable to cash payments, as well as US, European and Swiss regulations on embargoes and economic sanctions. These summaries are consistent with the procedure established by the Group's Executive Management requiring advance disclosure and approval by the Group of any transaction involving any of the countries covered by these regulations.

Information and communication systems

Strategic plans for developing the Group's information and communication systems are coordinated by the Information Systems Department, which ensures that all solutions implemented are harmonized and that business continuity plans are in place. Aspects of internal control (segregation of duties, access rights, etc.) are integrated when implementing new information systems and then regularly reviewed.

Information and telecommunications systems and their associated risks (physical, technical, internal and external security, etc.) are covered by special procedures: a business continuity planning methodology toolkit has been disseminated within the Group to define, for each significant entity, the broad outline of a business continuity plan as well as a disaster recovery plan. A Business Continuity Plan and a Disaster Recovery Plan have been developed and tested at the level of the French holding companies.

All significant entities have appointed a Chief Information & Security Officer (CISO). The activities of CISOs are coordinated by the Group CISO; together they constitute a vigilance network to monitor the development of risks affecting information systems, and implement adequate defenses depending on the likelihood of a given type of risk and its potential impact.

An overall approach of intrusion testing has also been applied to evaluate internal and external threats as well as third-party risk. Action plans are followed by the Group Information Systems Department.

In April 2015, LVMH set up an operations center to monitor and assess information systems security on behalf of all Group companies.

2.2.3. System stakeholders

Stakeholders are presented according to the three-lines-of-defense model, whereby the control and supervision of systems is provided by governing bodies.

Group governing bodies

The Performance Audit Committee monitors the effectiveness of internal control and risk management. It examines the results of Internal Audit work and approves the Internal Audit program strategy in terms of geographic, business and risk coverage.

The Board of Directors contributes to the general control environment through the expertise and responsibility of its members and the clarity and transparency of its decisions. The Board is kept informed on a regular basis of the maturity of the internal control system, and oversees the effective management of major risks, which are disclosed in its Management Report (see §2 Business risk and insurance policy).

At regular intervals, the Board and its Performance Audit Committee receive information on the results of the operation of these systems, any weaknesses noted and the action plans decided with a view to their resolution.

The Ethics and Sustainable Development Committee, established in 2016, ensures that the Group's practices reflect the highest standards of integrity, corporate social and environmental responsibility, and respect for the Group's business partners.

The Executive Committee, which consists of the Group's operational and functional executives, lays down strategic objectives within the framework of the direction set by the Board of Directors, coordinates their implementation, ensures that the organization adapts to changes in the business environment, defines executives' responsibilities and delegated authority, and ensures that the latter are properly applied.

First line of defense

All Group employees help enhance and maintain the internal control system.

Operational management: a key aspect of the internal control system applied to business processes is ownership of internal control within each entity by operational managers, who implement appropriate controls on a day-to-day basis for those processes for which they are responsible and pass on appropriate information to the second line of defense.

The Management Committees of Group companies and subsidiaries are responsible for implementing and ensuring the smooth running of internal control systems across all operations within their scope. The Management Committees of the Group companies are also in charge of the system for managing major risks; they review the risk mapping each year, assess the level of control as well as the progress of risk coverage strategies and the associated action plans.

Second line of defense

The Group's **Legal Affairs Department** is responsible for the Group's legal strategy and for managing all legal and judicial issues faced by Group companies. It supports the Group's development by conducting negotiations relating to acquisitions, disposals and partnerships. It ensures compliance with applicable regulations, particularly in the areas of corporate law, securities law and competition law. It determines the Group's legal strategy in major disputes in which Group companies become involved. Lastly, through its Intellectual Property team, it helps protect trademarks and patents, which are among the Group's key assets.

The role of the **Corporate Affairs Department** is to protect and promote the business model of the Group and its companies as well as to seize, as far as possible, any opportunities that may arise from discussions of or changes in policies and regulatory frameworks. To this end, the department analyzes relevant policies and legislation, considers the strategic issues at stake, coordinates actions in support of the Group's external positioning, and participates, in conjunction with LVMH's regional divisions, in the decision processes of authorities in Europe, the Americas and Asia, notably in the following fields: intellectual property, the digital economy, competition, corporate governance, culture and creative industries, and access to markets.

The Environment Department works to ensure that the Group and all its companies deliver an outstanding environmental performance, in line with the Charter signed by the Group's Chairman, covering the nine strategic priorities of the LVMH Initiatives for the Environment (LIFE) program. More information about the department's structure and objectives, and how these are reflected within Group companies, can be found in the Reference Document, under §1 of the "*Management Report of the Board of Directors* – Human resources", titled "General environmental policy".

The Group Risk Management and Insurance Department, alongside operational managers responsible for risks inherent in their businesses, is particularly involved at Group level in cataloguing risks, preventing losses and determining the risk coverage and financing strategy.

The other functional departments, presented in §2.3.1, help manage risks related specifically to financial and accounting information.

The Internal Control Department, which reports to the Group Audit and Internal Control Director, coordinates the implementation of internal control and risk management systems. It monitors and anticipates regulatory changes in order to adapt mechanisms. It coordinates a network of internal controllers responsible, within the Group companies and under the responsibility of their Management Committees, for ensuring compliance with the Group's internal control procedures and preparing controls tailored to their businesses. They also spearhead various projects related to the internal control and risk management systems and promote the dissemination and application of guidelines.

Furthermore, the **Employee Safety Committee** meets regularly to analyze the effectiveness of systems designed to ensure the safety of travelers and employees of the Group abroad, and make any decisions required in exceptional situations.

Equivalent departments at brand or business group level: the organizational structure described above at Group level is mirrored in the main business groups and Group companies.

Third line of defense

The Audit and Internal Control Department's purview extends across the entire Group and works to a multi-year audit plan, updated annually. The audit plan is used to monitor and reinforce the understanding and correct application of expected control activities. The audit plan is prepared on the basis of an analysis of potential risks, either existing or emerging, by type of business (such as size, contribution to profits, geographical location, quality of local management, etc.) and on the basis of meetings held with the operational managers concerned; it can be modified during the year in response to changes in the political and economic environment or internal strategy. The audit plan is also prepared with a view to covering all Group companies.

The audit teams conduct internal control assessments covering various operational and financial processes. They also undertake accounting audits as well as audits of cross-functional issues within a given business segment. Follow-ups on recommendations resulting from past audits are backed up by systematic on-site inspections at those subsidiaries with the most significant issues.

Internal Audit reports on its conclusions to management of the entity concerned and to Executive Management of the Group by way of an Executive Summary and a detailed report explaining its recommendations and setting out managers' commitments to apply them within a reasonable period of time. Internal Audit sends copies of the reports it issues to the Statutory Auditors and meets with them periodically to discuss current internal control issues. The main features of the audit plan, the primary conclusions of the current year and the follow-up of the principal recommendations of previous assignments are presented to the Performance Audit Committee and to the business groups concerned.

External stakeholders

The external auditors and the various certifying bodies (RJC, ISO 14001, etc.) help to reinforce the current system through their work and recommendations.

2.3. Risk management and internal control procedures related to financial and accounting information

2.3.1. Organization and stakeholders

Risk management and internal controls of accounting and financial information are the responsibility of the following departments, which are all part of Group Finance: Accounting and Consolidation, Management control, Information Systems, Corporate Finance and Treasury, Tax, and Financial Communication.

The Accounting and Consolidation function is responsible for preparing and producing the individual company accounts of LVMH SE and the holding companies that control the Group's equity holdings, the consolidated financial statements, and interim and annual results releases, in particular the Interim Financial Report and the Reference Document. To this end, the Accounting Standards and Practices team defines and disseminates the Group's accounting policies, monitors and enforces their application and organizes any related training programs that may be deemed necessary. The Consolidation Department also coordinates the Group's Statutory Auditors.

Management Control is responsible for coordinating the budget process, the update of budget estimates during the year and the five-year strategic plan, as well as impairment testing of fixed assets. Management Control produces the monthly operating report and all reviews required by Executive Management (see §2.3.4 Management reporting below); it also tracks capital expenditures and cash flow, as well as producing statistics and specific operational indicators. By virtue of its area of competence and the structure of the reports it produces, Management Control is an essential participant in the internal control and financial risk management system.

These two departments are attached to the **Deputy Finance Director's Department**.

The Information Systems Department designs and implements information systems needed by the Group's central functions. It disseminates the Group's technical standards, which are indispensable given the decentralized structure of the Group's equipment, applications, networks, etc., and identifies any potential synergies between businesses, while respecting brand independence. It develops and maintains a telecommunications system, IT hosting platforms, and transversal applications shared by all entities in the Group. It drives policies for system and data security and helps the brands prepare emergency contingency plans. In cooperation with the subsidiaries, it supervises the creation of three-year plans for all information systems across the Group, by business group and by entity.

Corporate Finance and Treasury is responsible for implementing the Group's financial policy, which includes balance sheet optimization, financing strategy, management of finance costs, returns on cash surpluses and investments, improvements to financial structure, and the prudent management of solvency, liquidity, market and counterparty risk.

Within this department, the International Treasury team focuses more specifically on pooling the Group's surplus cash and forecasts Group companies' financing requirements on the basis of regular updates prepared by those companies, as well as meeting subsidiaries' short- and medium-term liquidity and financing requirements. It is also responsible for applying a centralized foreign exchange risk management strategy.

The Markets team, which is also part of Corporate Finance and Treasury, is delegated the responsibility of implementing the policy of hedging market risks generated by Group companies. In that respect, it is responsible for applying a centralized interest rate risk and counterparty risk management strategy, designed to limit the negative impact of interest rate fluctuations and counterparty credit risk in financial transactions and investments.

To this end, strict procedures and a management policy have been established to measure, manage and consolidate these market risks. Within this team, the separation of Front office and Back office activities, combined with an independent control team reporting to the Deputy CFO, allow for a greater segregation of duties. This organization relies on an integrated computerized system allowing real-time controls on hedging transactions. The hedging mechanism is periodically presented to the Performance Audit Committee. Hedging decisions are made according to a clearly established process that includes regular presentations to the Group's Executive Committee and detailed communication.

The Tax Department coordinates the preparation of tax returns and ensures compliance with applicable laws and regulations, advises the various business groups and companies and proposes tax solutions appropriate to the Group's operational requirements. It organizes appropriate training courses in response to major changes in tax legislation and provides uniform reporting of tax data.

The Financial Communications Department is responsible for coordinating all information issued to the financial community so as to provide the latter with a clear, transparent and accurate understanding of the Group's performance and outlook. It also provides Executive Management with the perspectives of the financial community on the Group's strategy and its positioning within its competitive environment. It works closely with Executive Management and the business groups to define key messages, and harmonizes and coordinates the dissemination of those messages through various channels (publications such as the annual and interim reports, financial presentations, meetings with shareholders and analysts, the website, etc.).

Each of these departments is responsible for ensuring the quality of internal control in its own area of activity via **the Finance Departments of business groups, companies and subsidiaries**, which are in turn responsible for similar functions within their respective entities. In this way, each of the central departments runs its control mechanism through its functional chain of command (Controller, Head of Accounting, Consolidation Manager, Treasurer, etc.). The finance departments of the main companies of the Group and the departments of the parent company, LVMH, described above, periodically organize joint finance committees. Run and coordinated by the central departments, these committees deal particularly with applicable standards and procedures, financial performance and any corrective action needed, together with internal control relating to accounting and management data.

2.3.2. Accounting and management policies

Subsidiaries adopt the accounting and management policies communicated by the Group for the purposes of the published consolidated financial statements and internal reporting; they all use the same framework (the LVMH chart of accounts and manual of accounting policies) and the accounting and management reporting system administered by the Group, thus ensuring consistency between internal and published data.

2.3.3. Consolidation process

The account consolidation process is covered by regular detailed instructions; a specially adapted data submission system facilitates consistent, comprehensive and reliable data processing within the appropriate timeframes. The Chairman and CFO of each company undertake to ensure the quality and completeness of financial information sent to the Group – including off-balance sheet items – in a signed letter of representation which gives added weight to the quality of their financial information.

Sub-consolidations are carried out at Group company and business group level, which act as primary control filters and help ensure consistency.

At Group level, the teams in charge of consolidation are organized by type of business and are in permanent contact with the business groups and companies concerned, thereby enabling them to better understand and validate the reported financial data and anticipate the treatment of complex transactions.

The quality of financial information, and its compliance with standards, are also guaranteed through ongoing exchanges with the Statutory Auditors whenever circumstances are complex and open to interpretation.

2.3.4. Management reporting

Each year, all of the Group's consolidated entities produce a strategic plan, a complete budget and annual forecasts. Detailed instructions are sent to the companies for each process.

These key steps represent opportunities to perform detailed analyses of actual data compared with budget and prior year data, and to foster ongoing communication between companies and the Group – an essential feature of the financial internal control mechanism.

A team of controllers at Group level, specialized by business, is in permanent contact with the business groups and companies concerned, thus ensuring better knowledge of performance and management decisions, as well as appropriate controls.

Specific meetings to close out the half-yearly and annual financial statements are attended by the Finance Department teams concerned; during those meetings the Statutory Auditors present their conclusions with regard to the quality of financial and accounting information and the internal control environment of the different companies of the Group.

2.4. Formalization and management of risk management and internal control systems

2.4.1. The Enterprise Risk and Internal Control Assessment (ERICA) approach

In line with European directives and the ordinance of December 2008, the Group introduced its Enterprise Risk and Internal Control Assessment (ERICA) approach, a comprehensive process for improving and integrating systems for managing major risks and internal control related to its ordinary activities.

The Group's companies and business groups acknowledge their responsibility in relation to this process each year by signing two letters of representation:

- an ERICA letter of representation concerning risk management and internal control systems, signed on June 30. By signing the letter, the Chairman, Chief Financial Officer and/or members of the Management Committee confirm their responsibility for these systems, and give their assessment of them, identifying major weaknesses and the corresponding remediation plans. These letters are analyzed, followed up on and "consolidated" at each higher level of the Group's organizational structure (region, Group company and business group); they are forwarded to the Finance Department and the Group Audit and Internal Control Department. They are also made available to the Statutory Auditors;
- the annual letter of representation on financial reporting, which includes a paragraph devoted to internal control, mentioned above in §2.3.3.

Since 2013, depending on the circumstances, Presidents of Group companies have been required to present the Performance Audit Committee with an update on achievements, action plans in progress and the outlook for their area of responsibility.

The Performance Audit Committee decided in 2013 to implement the ERICA system across all Group entities by 2015; recently acquired entities are allowed two years to implement this approach once the integration process has been completed.

The ERICA system operates as follows:

- it has been rolled out to all Group entities;
- the Group applies the central system across a scope that is reviewed annually;
- Group companies have complete latitude to apply the system across whatever scope they deem most appropriate;
- all data on the assessment of controls and major risks are input by each entity and centralized in a database application managed by the holding company.

2.4.2. Management of major risks and of the internal control system

Major risks relating to the Group's brands and businesses are managed at business group and Group company level. As part of the budget cycle and in connection with the preparation of the three-year plan, major risks affecting strategic, operational and financial objectives are identified and evaluated, and formalized in specific chapters.

Once an acceptable risk level has been determined and validated, risks are handled via preventive and protective measures; the latter include business continuity plans (BCP) and crisis management plans in order to organize the best response to risks once they have arisen. Finally, depending on the types of risk to which a particular brand or entity is exposed and the amount of residual risk, the entity may decide, in collaboration with the Group, to use the insurance market to transfer part or all of the residual risk and/or assume this risk.

Specific monitoring procedures apply to some risks specific to the Group's business (damage to the Group's image or reputation, counterfeit goods and parallel markets, industrial and environmental risk, foreign exchange and interest rate risk, etc.). These risks are detailed in §2 "Business risk factors and insurance policy" in the "LVMH group" section of the "*Management Report of the Board of Directors*", which is included in the Reference Document.

Lastly, financial risks relating to the effects of climate change as well as measures adopted to mitigate those risks are described in §4 "Combating and adapting to climate change" in the "LVMH and the environment" section of the "*Management Report of the Board of Directors*", which is included in the Reference Document.

Ongoing monitoring of the internal control system and periodic reviews of its functioning are carried out on a number of levels:

- managers and operational staff at Group companies are given the responsibility, with the support of internal control personnel, of assessing the level of internal control on the basis of key controls, identifying weaknesses and taking corrective action. Exception reports allow for the enhancement of detective controls in addition to preventive measures;
- a formal annual self-assessment process, based on a list of key controls taken from the internal control framework, integrated into the ERICA system (see §2.4.1 above);
- the Statutory Auditors are kept informed of this approach, as is the Performance Audit Committee, by means of regular briefings;

- reviews are carried out by Group Internal Audit and the Statutory Auditors, the findings and recommendations of which are passed on to entities' management and Group Executive Management;
- a review of the ERICA system and the quality of self-assessment is an integral part of the work of the Internal Audit team at all audited entities.

2.4.3. Recent actions taken to reinforce the risk management and internal control system

With regard to Internal Control, numerous initiatives were taken in a variety of areas. For example:

- the introduction or renewal of robust certification processes (ISO 14001, Responsible Jewellery Council, etc.);
- the strengthening of payment security by Group companies and awareness-raising actions amid the resurgence and worldwide spread of the business e-mail compromise (BEC) scam whereby a schemer assumes the identity of a company's CEO, attorney, or trusted vendor to send an employee a fraudulent request for an urgent wire transfer;
- the tightening of data security requirements imposed on the Group's service providers;
- the addition to the Group's reference framework of business-specific fundamental controls in the Fashion and Leather Goods, Watches and Jewelry, Perfumes and Cosmetics, and Wines and Spirits business groups; each of the companies concerned will choose to disseminate some or all of these new standards in 2017 alongside the rollout of the ERICA self-assessment process.

In terms of major risks, the ERICA approach that was rolled out three years ago has been raising Group companies' awareness of the need to identify and manage risks that may threaten their strategy, business or brand. The principal risks actively managed by Group companies are media risk; safety and security risk for Group employees and its various audiences; risk of critical IT systems failure, including production systems; risk of loss of sensitive data; risk of major site incidents; risk of property damage, loss or theft; risk of a default by a strategic supplier; supply risk; and social and environmental risk.

At the instigation of the Group Audit and Internal Control Department, the Group's brands have worked to implement and maintain business continuity plans (BCPs); regular sessions are held to provide training and share best practice. At the end of 2015, the Group embarked on a process to obtain an independent assessment of the business continuity plans of its ten most important companies. These assessments, carried out with the assistance of an outside firm, began in 2016 and will continue through to the end of 2017. They focus on three essential factors with the potential to impair business continuity: key personnel, information systems, and critical infrastructure and partners across the entire supply chain.

The Group exercises specific vigilance with regard to the legal environment and increasingly stringent compliance demands. At the initiative of Executive Management, the Group and its companies are pursuing robust initiatives to anticipate regulatory developments and, as stated in §2.2.2 above, meet the requirements of the "Sapin II" Act in France and of the EU's General Data Protection Regulation (GDPR).

3. STATUTORY AUDITORS' REPORT, PREPARED IN ACCORDANCE WITH ARTICLE L.225-235 OF THE FRENCH COMMERCIAL CODE, ON THE REPORT PREPARED BY THE CHAIRMAN OF THE BOARD OF DIRECTORS OF LVMH MOËT HENNESSY - LOUIS VUITTON

To the Shareholders,

In our capacity as Statutory Auditors of LVMH Moët Hennessy - Louis Vuitton and in accordance with Article L.225-235 of the French Commercial Code (*Code de commerce*), we hereby report on the report prepared by the Chairman of your Company in accordance with Article L.225-37 of the French Commercial Code for the fiscal year ended December 31, 2016.

It is the Chairman's responsibility to prepare and submit for the Board of Directors' approval a report on internal control and risk management procedures implemented by the Company and to provide the other information required by Article L.225-37 of the French Commercial Code relating to matters such as corporate governance.

Our role is to:

- report on any matters as to the information contained in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information;
- confirm that the report also includes the other information required by Article L.225-37 of the French Commercial Code. It should be noted that our role is not to verify the fairness of this other information.

We conducted our work in accordance with professional standards applicable in France.

Information on internal control and risk management procedures relating to the preparation and processing of the accounting and financial information

The professional standards require that we perform the necessary procedures to assess the fairness of the information provided in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information. These procedures consist mainly in:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information on which the information presented in the Chairman's report is based and of the existing documentation;
- obtaining an understanding of the work involved in the preparation of this information and of the existing documentation;
- determining if any material weaknesses in the internal control procedures relating to the preparation and processing of the accounting and financial information that we may have noted in the course of our work are properly disclosed in the Chairman's report.

On the basis of our work, we have no matters to report on the information relating to the Company's internal control and risk management procedures relating to the preparation and processing of the accounting and financial information contained in the Report of the Chairman of the Board of Directors in accordance with Article L.225-37 of the French Commercial Code.

Other information

We confirm that the Report of the Chairman of the Board of Directors also contains the other information required by Article L.225-37 of the French Commercial Code.

Courbevoie and Paris-La Défense, February 6, 2017

The Statutory Auditors

French original signed by

MAZARS		ERNST & YOUNG Audit	
Loïc Wallaert	Simon Beillevaire	Jeanne Boillet	Benoit Schumacher

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