LVMH

MOËT HENNESSY . LOUIS VUITTON

# TRANSLATION OF THE FRENCH FINANCIAL DOCUMENTS

FISCAL YEAR ENDED DECEMBER 31, 2016

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This document is a free translation into English of the original French “Documents financiers – 31 décembre 2016”, hereafter referred to as the “Financial Documents”. It is not a binding document. In the event of a conflict in interpretation, reference should be made to the French version, which is the authentic text.

# EXECUTIVE AND SUPERVISORY BODIES; STATUTORY AUDITORS AS OF DECEMBER 31, 2016

## Board of Directors

Bernard Arnault
*Chairman and Chief Executive Officer*

Pierre Godé
*Vice-Chairman*

Antonio Belloni
*Group Managing Director*

Antoine Arnault

Delphine Arnault

Nicolas Bazire

Bernadette Chirac [a]

Charles de Croisset [a]

Diego Della Valle [a]

Albert Frère [a]

Clara Gaymard [a]

Marie-Josée Kravis [a]

Lord Powell of Bayswater

Marie-Laure Sauty de Chalon [a]

Yves-Thibault de Silguy [a]

Natacha Valla [a]

Hubert Védrine [a]

**Advisory Board members**

Paolo Bulgari

Patrick Houël

Felix G. Rohatyn

## Executive Committee

Bernard Arnault
*Chairman and Chief Executive Officer*

Antonio Belloni
*Group Managing Director*

Nicolas Bazire
*Development and acquisitions*

Michael Burke
*Louis Vuitton*

Chantal Gaemperle
*Human Resources and Synergies*

Jean-Jacques Guiony
*Finance*

Christopher de Lapuente
*Sephora and beauty*

Christophe Navarre
*Wines and Spirits*

Pierre-Yves Roussel
*Fashion Group*

Philippe Schaus
*DFS*

Jean-Baptiste Voisin
*Strategy*

**General Secretary**

Marc-Antoine Jamet

## Performance Audit Committee

Yves-Thibault de Silguy [a]
*Chairman*

Antoine Arnault

Charles de Croisset [a]

## Nominations and Compensation Committee

Charles de Croisset [a]
*Chairman*

Marie-Josée Kravis [a]

Yves-Thibault de Silguy [a]

## Ethical and Sustainable Development Committee

Yves-Thibault de Silguy [a]
*Chairman*

Delphine Arnault

Marie-Laure Sauty de Chalon [a]

## Statutory Auditors

ERNST & YOUNG Audit
*represented by Jeanne Boillet and Benoit Schumacher*

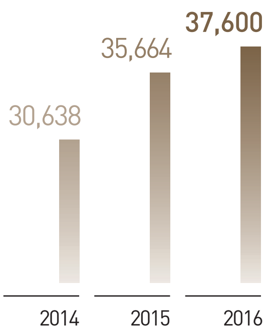
Mazars
*represented by Simon Beillevaire and Loïc Wallaert*

(a) Independent Director.

# FINANCIAL HIGHLIGHTS

## Revenue

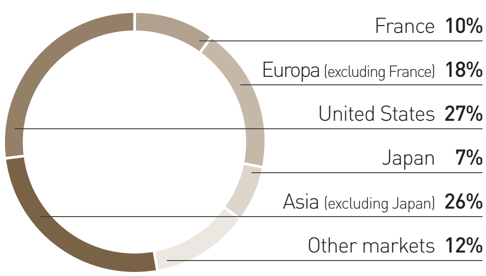
*(EUR millions)*



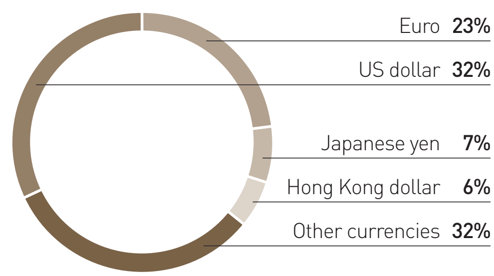

| Revenue by business group *(EUR millions)* | 2016 | 2015 [a] | 2014 [a] |
|---|---|---|---|
| Wines and Spirits | 4,835 | 4,603 | 3,973 |
| Fashion and Leather Goods | 12,775 | 12,369 | 10,828 |
| Perfumes and Cosmetics | 4,953 | 4,671 | 4,006 |
| Watches and Jewelry | 3,468 | 3,308 | 2,782 |
| Selective Retailing | 11,973 | 11,193 | 9,520 |
| Other activities and eliminations | (404) | (480) | (471) |
| **Total** | **37,600** | **35,664** | **30,638** |

(a) See Note 23.1 Information by business group to the condensed consolidated financial statements.

### Revenue by geographic region of delivery

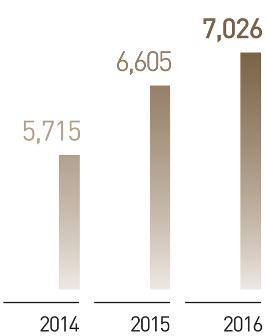



### Revenue by invoicing currency




## Profit from recurring operations

*(EUR millions)*

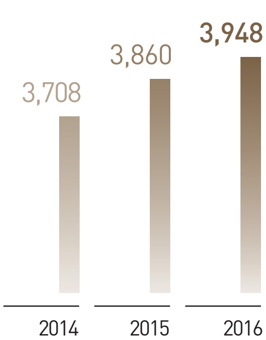



| Profit from recurring operations by business group *(EUR millions)* | 2016 | 2015 [a] | 2014 [a] |
|---|---|---|---|
| Wines and Spirits | 1,504 | 1,363 | 1,147 |
| Fashion and Leather Goods | 3,873 | 3,505 | 3,189 |
| Perfumes and Cosmetics | 551 | 524 | 413 |
| Watches and Jewelry | 458 | 432 | 283 |
| Selective Retailing | 919 | 940 | 884 |
| Other activities and eliminations | (279) | (159) | (201) |
| **Total** | **7,026** | **6,605** | **5,715** |

(a) See Note 23.1 Information by business group to the condensed consolidated financial statements.

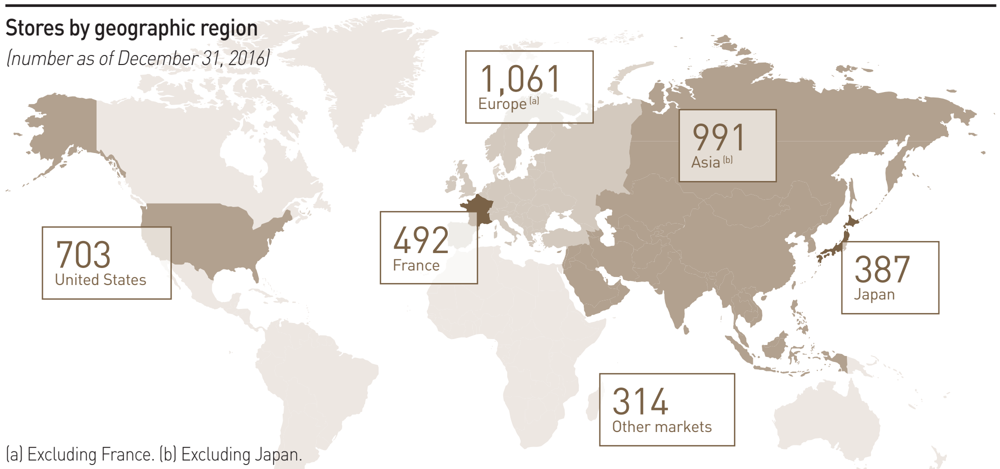
## Stores

*(number)*




### Stores by geographic region

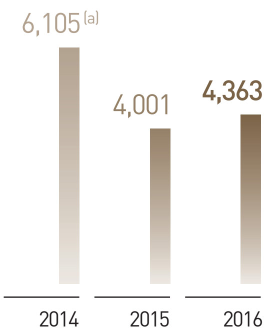
*(number as of December 31, 2016)*




(a) Excluding France. (b) Excluding Japan.

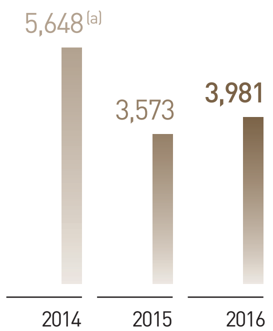
## Net profit

*(EUR millions)*



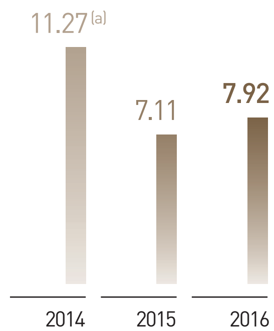

## Net profit, Group share

*(EUR millions)*




## Basic Group share of net earnings per share

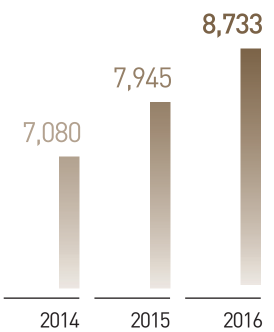
*(EUR)*




(a) Of which 2,677 million euros (i.e. 5.34 euros per share) resulting from the distribution of Hermès shares. See Note 8 to the 2014 consolidated financial statements.

## Cash from operations before changes in working capital [a]

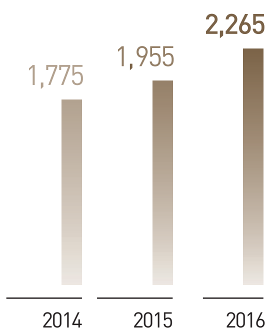
*(EUR millions)*




(a) Before interest and tax paid.

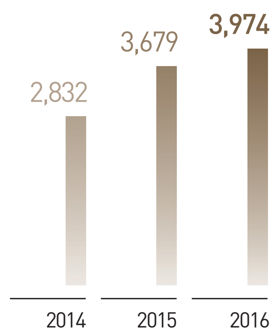
## Operating investments

*(EUR millions)*




## Free cash flow [a]

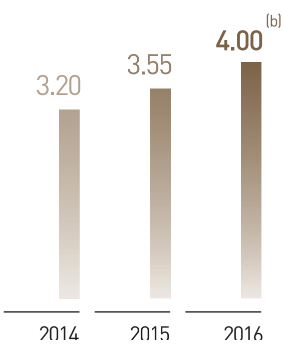
*(EUR millions)*




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

## Dividend per share [a]

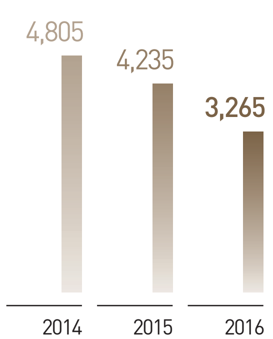
*(EUR)*




(a) Gross amount paid for fiscal year, excluding the impact of regulations applicable to the beneficiary.
(b) Amount proposed at the Shareholders' Meeting of April 13, 2017.

## Net financial debt [a]

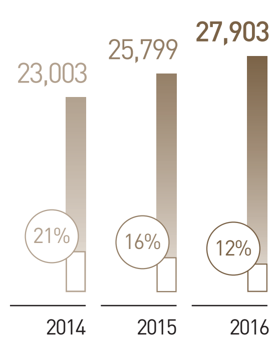
*(EUR millions)*




(a) Excluding purchase commitments for minority interests included in Other non-current liabilities. See Note 18.1 to the condensed consolidated financial statements for definition of net financial debt.

## Total equity and Net financial debt/ Total equity

*(EUR millions and percentage)*



## HIGHLIGHTS AND OUTLOOK

Key highlights from 2016 include:

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

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

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

## SHARE CAPITAL AND VOTING RIGHTS

| | Number of shares | Number of voting rights [a] | % of share capital | % of voting rights |
|---|---|---|---|---|
| Arnault family group | 237 036 289 | 461,347,582 | 46.74% | 63.07% |
| Other | 270,089,799 | 270,113,490 | 53.26% | 36.93% |
| **Total** | **507,126,088** | **731,461,072** | **100.00%** | **100.00%** |

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

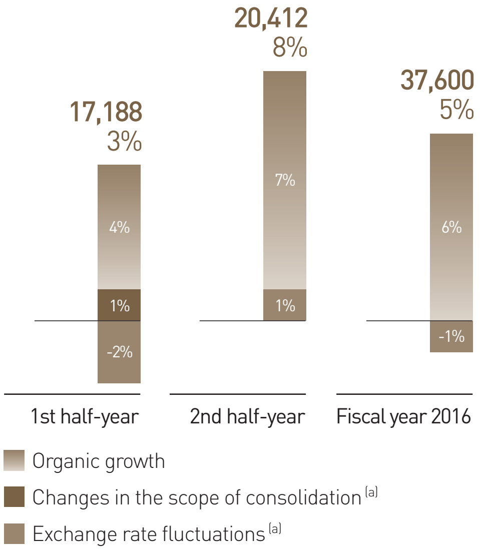
# BUSINESS REVIEW AND COMMENTS ON THE CONSOLIDATED FINANCIAL STATEMENTS OF LVMH GROUP

# 1. COMMENTS ON THE CONSOLIDATED INCOME STATEMENT

## 1.1. Analysis of revenue

### Change in revenue per half-year period

*(EUR millions and percentage)*




(a) The principles used to determine the net impact of exchange rate fluctuations on the revenue of entities reporting in foreign currencies and the net impact of changes in the scope of consolidation are described on page 9.

Consolidated revenue for fiscal year 2016 was 37,600 million euros, up 5% over the preceding fiscal year. Despite the stability of the US dollar and the appreciation of the Japanese yen, Group revenue was negatively impacted by the decline in the Group's other invoicing currencies with respect to the euro.

The following changes have been made in the Group's scope of consolidation since January 1, 2015: in Other activities, the acquisition of the newspaper Le Parisien-Aujourd'hui en France in October 2015; in Wines and Spirits, the disposal of the Wenjun brand in November 2016; and in Fashion and Leather Goods, the disposal of the Donna Karan brand in December 2016. These changes in the scope of consolidation had a very limited impact on revenue growth for the year.

On a constant consolidation scope and currency basis, revenue increased by 6%.

### Revenue by invoicing currency

| (as %) | 2016 | 2015 | 2014 |
|---|---|---|---|
| Euro | 23 | 22 | 23 |
| US dollar | 32 | 32 | 29 |
| Japanese yen | 7 | 7 | 7 |
| Hong Kong dollar | 6 | 7 | 8 |
| Other currencies | 32 | 32 | 33 |
| **Total** | **100** | **100** | **100** |

The breakdown of revenue by invoicing currency remained nearly unchanged: the contribution of the euro rose by 1 point to 23% while the contribution of other currencies fell by 1 point to 38%. The portions of revenue in US dollars and Japanese yen remained stable at 32% and 7%, respectively.

### Revenue by geographic region of delivery

| (as %) | 2016 | 2015 | 2014 |
|---|---|---|---|
| France | 10 | 10 | 10 |
| Europe (excluding France) | 18 | 18 | 19 |
| United States | 27 | 26 | 24 |
| Japan | 7 | 7 | 7 |
| Asia (excluding Japan) | 26 | 27 | 29 |
| Other markets | 12 | 12 | 11 |
| **Total** | **100** | **100** | **100** |

By geographic region of delivery, the relative contribution of Asia (excluding Japan) to Group revenue fell by 1 point to 26%, while that of the United States increased by 1 point to 27%. The relative contributions of France, Europe (excluding France), Japan and Other markets remained stable at 10%, 18%, 7% and 12%, respectively.

### Revenue by business group

| (EUR millions) | 2016 | 2015 | 2014 |
|---|---|---|---|
| Wines and Spirits | 4,835 | 4,603 | 3,973 |
| Fashion and Leather Goods | 12,775 | 12,369 | 10,828 |
| Perfumes and Cosmetics | 4,953 | 4,671 | 4,006 |
| Watches and Jewelry | 3,468 | 3,308 | 2,782 |
| Selective Retailing | 11,973 | 11,193 | 9,520 |
| Other activities and eliminations | (404) | (480) | (471) |
| **Total** | **37,600** | **35,664** | **30,638** |

By business group, the breakdown of Group revenue remained nearly unchanged. The contribution of Fashion and Leather Goods, at 34%, was down 1 point, while that of Selective Retailing increased by 1 point to 32%. The contributions of Wines and Spirits, Perfumes and Cosmetics, and Watches and Jewelry remained stable at 13%, 13% and 9%, respectively.

Wines and Spirits saw an increase in revenue of 5% based on published figures. Revenue for this business group increased by 7% on a constant consolidation scope and currency basis, with the net impact of exchange rate fluctuations weighing it down by 2 points. This performance was largely driven by an increase in volumes. Demand remained very strong in the United States and Europe, while China saw a clear improvement in 2016.

Fashion and Leather Goods posted organic growth of 4%, and 3% based on published figures. This business group's performance was driven by the very solid momentum achieved by Louis Vuitton, as well as by Kenzo, Fendi, Loewe, Céline and Berluti, which confirmed their potential for strong growth.

Revenue for Perfumes and Cosmetics increased by 8% on a constant consolidation scope and currency basis, and by 6% based on published figures. This growth confirmed the effectiveness of the value-enhancing strategy resolutely pursued by the Group's brands in the face of competitive pressures. The Perfumes and Cosmetics business group saw very appreciable revenue growth in the United States, Europe and Asia.

Revenue for Watches and Jewelry increased by 5% on a constant consolidation scope and currency basis, as well as according to published figures. This business group saw a very strong set of performances by TAG Heuer, Chaumet and Fred as well as growth by Bvlgari. Asia and Europe (excluding France) were the most buoyant regions.

Revenue for Selective Retailing increased by 8% on a constant consolidation scope and currency basis and by 7% based on published figures. This performance was driven by Sephora, which generated very appreciable growth in revenue across all world regions.

## 1.2. Profit from recurring operations

| *(EUR millions)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Revenue | 37,600 | 35,664 | 30,638 |
| Cost of sales | (13,039) | (12,553) | (10,801) |
| Gross margin | 24,561 | 23,111 | 19,837 |
| Marketing and selling expenses | (14,607) | (13,830) | (11,744) |
| General and administrative expenses | (2,931) | (2,663) | (2,373) |
| Income (loss) from investments in joint ventures and associates | 3 | (13) | (5) |
| **Profit from recurring operations** | **7,026** | **6,605** | **5,715** |
| **Operating margin** *(%)* | **18.7** | **18.5** | **18.7** |

The Group achieved a gross margin of 24,561 million euros, up 6% compared to the prior fiscal year. As a percentage of revenue, the gross margin was 65%, stable with regard to 2015.

Marketing and selling expenses totaled 14,607 million euros, up 6% based on published figures and on a constant consolidation scope and currency basis. This increase was mainly due to the development of retail networks but also to higher communications investments, especially in Perfumes and Cosmetics. The level of these expenses as a percentage of revenue remained stable at 39%. Among these marketing and selling expenses, advertising and promotion costs amounted to 11% of revenue, increasing by 6% on a constant consolidation scope and currency basis.

The geographic breakdown of stores is as follows:

| *(number)* | 2016 | 2015 [a] | 2014 |
|---|---|---|---|
| France | 492 | 482 | 467 |
| Europe (excluding France) | 1,061 | 1,012 | 995 |
| United States | 703 | 732 | 708 |
| Japan | 387 | 407 | 412 |
| Asia (excluding Japan) | 991 | 951 | 870 |
| Other markets | 314 | 276 | 256 |
| **Total** | **3,948** | **3,860** | **3,708** |

(a) Including 68 stores for Donna Karan.

General and administrative expenses totaled 2,931 million euros, up 10% based on published figures and up 9% on a constant consolidation scope and currency basis. They amounted to 8% of revenue, up 1 point compared to 2015.

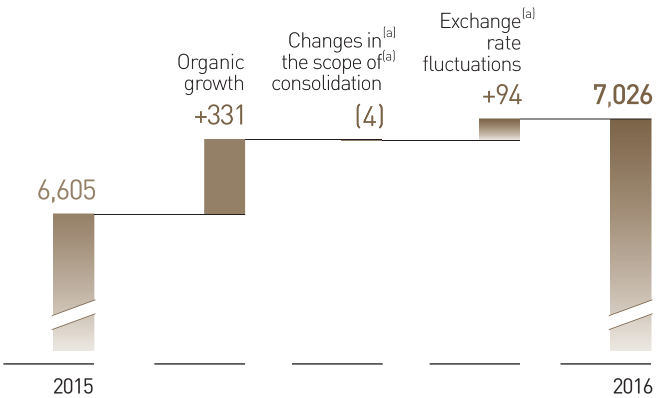
### Profit from recurring operations by business group

| *(EUR millions)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Wines and Spirits | 1,504 | 1,363 | 1,147 |
| Fashion and Leather Goods | 3,873 | 3,505 | 3,189 |
| Perfumes and Cosmetics | 551 | 524 | 413 |
| Watches and Jewelry | 458 | 432 | 283 |
| Selective Retailing | 919 | 940 | 884 |
| Other activities and eliminations | (279) | (159) | (201) |
| **Total** | **7,026** | **6,605** | **5,715** |

The Group's profit from recurring operations was 7,026 million euros, up 6%. The Group's operating margin as a percentage of revenue was 18.7%, broadly stable with respect to December 31, 2015.

### Change in profit from recurring operations

*(EUR millions)*




(a) The principles used to determine the net impact of exchange rate fluctuations on the revenue of entities reporting in foreign currencies and the net impact of changes in the scope of consolidation are described on page 9.

Exchange rate fluctuations had a positive overall impact of 94 million euros on profit from recurring operations compared to the previous fiscal year. This total comprises the following three items: the impact of exchange rate fluctuations on export and import sales and purchases by Group companies, the change in the net impact of the Group's policy of hedging its commercial exposure to various currencies, and the impact of exchange rate fluctuations on the consolidation of profit from recurring operations of subsidiaries outside the eurozone.

On a constant consolidation scope, currency and foreign exchange hedging basis, the Group's profit from recurring operations was up 5%.

### Wines and Spirits

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Revenue *(EUR millions)* | 4,835 | 4,603 | 3,973 |
| Profit from recurring operations *(EUR millions)* | 1,504 | 1,363 | 1,147 |
| Operating margin *(%)* | 31.1 | 29.6 | 28.9 |

Profit from recurring operations for Wines and Spirits was 1,504 million euros, up 10% compared to 2015. Champagne and wines contributed 658 million euros while cognacs and spirits accounted for 846 million euros. This performance was the result of both sales volume growth and a policy of significant price increases. The operating margin as a percentage of revenue for this business group increased by 1.5 points to 31.1%.

### Fashion and Leather Goods

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Revenue *(EUR millions)* | 12,775 | 12,369 | 10,828 |
| Profit from recurring operations *(EUR millions)* | 3,873 | 3,505 | 3,189 |
| Operating margin *(%)* | 30.3 | 28.3 | 29.5 |

Fashion and Leather Goods posted profit from recurring operations of 3,873 million euros, up 10% with respect to 2015. Louis Vuitton saw an increase in its profit from recurring operations, while Kenzo, Fendi and Céline confirmed their profitable growth momentum. The business group's operating margin as a percentage of revenue grew by 2 points to 30.3%.

### Perfumes and Cosmetics

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Revenue *(EUR millions)* | 4,953 | 4,671 | 4,006 |
| Profit from recurring operations *(EUR millions)* | 551 | 524 | 413 |
| Operating margin *(%)* | 11.1 | 11.2 | 10.6 |

Profit from recurring operations for Perfumes and Cosmetics was 551 million euros, up 5% compared to 2015. This growth was driven by Parfums Christian Dior, Benefit, Guerlain, Parfums Givenchy and Make Up For Ever which posted improved results thanks to the success of their flagship product lines and strong innovative momentum. The business group's operating margin as a percentage of revenue remained stable at 11%.

### Watches and Jewelry

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Revenue *(EUR millions)* | 3,468 | 3,308 | 2,782 |
| Profit from recurring operations *(EUR millions)* | 458 | 432 | 283 |
| Operating margin *(%)* | 13.2 | 13.1 | 10.2 |

Profit from recurring operations for Watches and Jewelry was 458 million euros, up 6% with respect to 2015. This increase was the result of the strong performance achieved by TAG Heuer and Bvlgari, with operating margin as a percentage of revenue remaining stable at 13%.

### Selective Retailing

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Revenue *(EUR millions)* | 11,973 | 11,193 | 9,520 |
| Profit from recurring operations *(EUR millions)* | 919 | 940 | 884 |
| Operating margin *(%)* | 7.7 | 8.4 | 9.3 |

Profit from recurring operations for Selective Retailing was 919 million euros, down 2% compared to 2015. The business group's operating margin as a percentage of revenue fell by 0.7 points to 7.7%.

### Other activities

The net result from recurring operations of Other activities and eliminations was a loss of 279 million euros, a decline with respect to 2015. In addition to headquarters expenses, this heading includes the results of the Media division, Royal Van Lent yachts, and hotel and real estate activities.

## 1.3. Other income statement items

| *(EUR millions)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Profit from recurring operations | 7,026 | 6,605 | 5,715 |
| Other operating income and expenses | (122) | (221) | (284) |
| Operating profit | 6,904 | 6,384 | 5,431 |
| Net financial income (expense) | (432) | (414) | 2,947 |
| Income taxes | (2,109) | (1,969) | (2,273) |
| **Net profit before minority interests** | **4,363** | **4,001** | **6,105** |
| Minority interests | (382) | (428) | (457) |
| **Net profit, Group share** | **3,981** | **3,573** | **5,648** |

Other operating income and expenses amounted to a net expense of 122 million euros, compared to a net expense of 221 million euros in 2015. In 2016, Other operating income and expenses included 155 million euros in amortization and impairment charges for brands and goodwill. The remainder mainly consisted of gains and losses on disposals.

The Group's operating profit was 6,904 million euros, up 8% compared to 2015.

The net financial expense for the fiscal year was 432 million euros, compared with a net financial expense of 414 million euros in 2015. This item comprises:

- the aggregate cost of net financial debt, which amounted to 83 million euros, up 5 million euros compared to 2015, with the favorable impact of lower interest rates and the decrease in the average amount of debt outstanding for the fiscal year more than offset by the unfavorable impact of the change in the market value of debt hedging instruments;
- other financial income and expenses, which amounted to a net expense of 349 million euros, compared to a net expense of 336 million euros in 2015. The expense related to the ineffective portion of foreign exchange derivatives was 330 million euros, versus an expense of 437 million euros a year earlier; the sharp appreciation of the US dollar with respect to the euro had led the Group to adapt its derivatives portfolio over the first half of 2015. Lastly, other income from financial instruments, which mainly arose from capital gains on sales and impairment of short-term investments, amounted to a net expense of 19 million euros, compared to net income of 100 million euros in 2015.

The Group's effective tax rate was 33%, stable with regard to 2015.

Profit attributable to minority interests was 382 million euros, compared to 428 million euros in 2015; this total mainly includes profit attributable to minority interests in Moët Hennessy and DFS.

The Group's share of net profit was 3,981 million euros, compared with 3,573 million euros in 2015. This represented 11% of revenue in 2016, up 1 point with respect to 2015. The Group share of net profit in 2016 was up 11% compared to the Group share of net profit in 2015.

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

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

The impact of changes in the scope of consolidation is determined:

- for the fiscal year's acquisitions, by deducting from revenue for the fiscal year the amount of revenue generated during that fiscal year by the acquired entities, as of their initial consolidation;
- for the prior fiscal year's acquisitions, by deducting from revenue for the fiscal year the amount of revenue generated over the months during which the acquired entities were not consolidated in the prior fiscal year;
- for the fiscal year's disposals, by adding to revenue for the fiscal year the amount of revenue generated by the divested entities in the prior fiscal year over the months during which those entities were no longer consolidated in the current fiscal year;
- for the prior fiscal year's disposals, by adding to revenue for the fiscal year the amount of revenue generated in the prior fiscal year by the divested entities.

Profit from recurring operations is restated in accordance with the same principles.

# 2. WINES AND SPIRITS

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| **Revenue** *(EUR millions)* | **4,835** | **4,603** | **3,973** |
| *Of which: Champagne and wines* | *2,288* | *2,221* | *1,985* |
| *Cognac and spirits* | *2,547* | *2,382* | *1,988* |
| **Sales volume** *(millions of bottles)* | | | |
| Champagne | 63.2 | 61.4 | 59.6 |
| Cognac | 83.8 | 76.0 | 70.4 |
| Other spirits | 19.1 | 18.6 | 17.3 |
| Still and sparkling wines | 44.2 | 45.4 | 45.1 |
| **Revenue by geographic region of delivery** *(%)* | | | |
| France | 6 | 6 | 6 |
| Europe (excluding France) | 18 | 19 | 21 |
| United States | 31 | 30 | 27 |
| Japan | 6 | 6 | 6 |
| Asia (excluding Japan) | 22 | 23 | 24 |
| Other markets | 17 | 16 | 16 |
| **Total** | **100** | **100** | **100** |
| **Profit from recurring operations** *(EUR millions)* | **1,504** | **1,363** | **1,147** |
| **Operating margin** *(%)* | **31.1** | **29.6** | **28.9** |
| **Operating investments of the period** *(EUR millions)* | **276** | **233** | **152** |

## Highlights

The Wines and Spirits business group had a very good year. Champagne made solid gains, with volumes up 3% and prestige cuvées performing especially well. Hennessy achieved excellent results, with volumes increasing by 10%. The robust momentum demonstrated by Glenmorangie and Ardbeg whiskies, together with the continued expansion of Belvedere vodka, the Chandon brand and the wines of the Estates & Wines collection, also contributed to the progress made in 2016. Driven by its commitment to excellence and innovation and backed by its powerful and agile distribution network, LVMH's Wines and Spirits business group won market share in all its key countries. Strong growth was recorded in the US market, even though the distribution contract for Grand Marnier products expired in the second half of the year. Momentum improved in China, while revenue rose in Europe despite the less-than-favorable economic climate.

Delivering its third consecutive year of record revenue, **Moët & Chandon** reaffirmed its leading position. Building on the strength of its innovations, including *Moët Ice Impérial Rosé*, the first rosé champagne designed to be enjoyed over ice, and the launch of its 2008 vintages, the brand saw solid growth particularly in North America.

**Dom Pérignon** continued to develop internationally and roll out its range of premium products. The brand made further inroads with its value-enhancing strategy, increasing its desirability by showcasing its Second Plenitude series, *Dom Pérignon P2*.

**Mercier** expanded its product range, focusing in particular on its *Blanc de Noirs* and *Brut Réserve* lines.

**Ruinart** achieved growth at historic levels, driven by its iconic cuvées. The brand further consolidated its positions in France and continued to expand rapidly around the globe. Ruinart's close ties with the contemporary art scene were reaffirmed by its collaboration with the photographer Erwin Olaf.

**Veuve Clicquot** kept up its momentum. The success of its *Brut Rosé* as well as innovations including *Vintage 2008*, *Rich* and *Rich Rosé* spurred the brand's growth in its mature markets, while *Carte Jaune* made considerable headway in the key markets of Japan, the United States and Australia.

Moving ahead on a solid growth trajectory, **Krug** saw its momentum improve considerably in 2016, invigorated by the remarkable success of *Krug 2002*. An original brand image strategy, combined with innovative digital communications, helped raise its profile.

**Estates & Wines** was buoyed by the upturn in the US market and expanded its portfolio of *Icons* wines with the launch of **Ao Yun** in China and a new *Single Vineyards* range for **Newton** in California. **Chandon** continued its expansion efforts in its main markets, backed by its innovation policy and its partnership with the McLaren-Honda Formula 1 team.

**Hennessy** once again recorded a strong increase in its sales volumes, fueled by the solid results achieved in all its key markets. The brand saw unprecedented growth in the United States, driven by its *Hennessy Very Special* cognac and thanks to its highly successful communications campaign. This strong momentum was seen across all of North America and the Caribbean. In China and in other Asian markets like South Korea and Singapore, shipping levels continued to recover, while distributor stocking levels remained healthy. Hennessy forged ahead with its strategy to move its product portfolio upscale, reinventing its fundamentals through iconic limited-edition releases like *Hennessy.8*, a tribute to the expertise handed down through eight successive generations of Master Blenders since 1800.

**Glenmorangie** and **Ardbeg** continued their advances in the United States, Europe and the Asia-Pacific region. Glenmorangie reaffirmed its leadership position as an innovator in the single malt category. Both brands received a number of international awards.

**Belvedere** remained on a steady growth track, reinforcing its position in ultra-premium vodka with innovations such as *Belvedere Bespoke*, offering customers the option to create their own personalized bottles.

## Outlook

In line with its strategic vision, 2017 will be an eventful year, with many new product launches further enhancing the appeal of the LVMH wines and spirits brands. This approach will be accompanied by an ambitious and creative communications strategy aimed at consolidating the leading positions held in the business group's main export markets and winning over new consumers. The Wines and Spirits business group will continue to invest in its production capacities, essential to maintaining the unparalleled quality of its products. Among other highlights, the year will see the entry into operation of two new facilities for Hennessy, one for aging its *eaux-de-vie* and the other for bottling and shipping. Faced with an uncertain global landscape, the agility of Moët Hennessy's distribution network represents a major asset for successful adaptation in a shifting environment while making the most of the geographic diversity of its business activities. Its highly dedicated staff, exceptional portfolio of brands and efficient distribution will enable the business group to retain its leading position in the highest-quality wines and spirits.

# 3. FASHION AND LEATHER GOODS

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| **Revenue** *(EUR millions)* | **12,775** | **12,369** | **10,828** |
| **Revenue by geographic region of delivery** *(%)* | | | |
| France | 8 | 9 | 8 |
| Europe (excluding France) | 23 | 22 | 21 |
| United States | 21 | 22 | 21 |
| Japan | 12 | 11 | 11 |
| Asia (excluding Japan) | 28 | 28 | 30 |
| Other markets | 8 | 8 | 9 |
| **Total** | **100** | **100** | **100** |
| **Type of revenue as a percentage of total revenue (excluding Louis Vuitton)** | | | |
| Retail | 64 | 60 | 58 |
| Wholesale | 35 | 37 | 40 |
| Licenses | 1 | 3 | 2 |
| **Total** | **100** | **100** | **100** |
| **Profit from recurring operations** *(EUR millions)* | **3,873** | **3,505** | **3,189** |
| **Operating margin** *(%)* | **30.3** | **28.3** | **29.5** |
| **Operating investments of the period** *(EUR millions)* | **506** | **553** | **585** |
| **Number of stores** | **1,508** | **1,566** | **1,534** |

## Highlights

Buoyed by the creative approach adopted in everything it does, **Louis Vuitton** had an impressive year marked by abundant innovation and development. In leather goods, there was strong demand for the *Twist* model and for the iconic *Capucines*. Small leather goods collections also posted solid growth. The new *Horizon* luggage range, designed for Louis Vuitton by Marc Newson, highlights the House's pioneering spirit thanks to its high levels of functionality and travel convenience. In jewelry, the new *Blossom* collection pays tribute to the flowers of the House's iconic *Monogram*. The high point of the year was the September launch of Louis Vuitton perfumes, a collection of seven fragrances. As is the case in everything it does, Louis Vuitton set its sights on excellence by entrusting the design of its perfumes to Jacques Cavallier Belletrud and establishing its design laboratory in Grasse, the cradle and beating heart of the perfume world. Actress Léa Seydoux, the new icon of ready-to-wear fashion, is also ambassador for this new business of Louis Vuitton. The communications approach included campaigns and key events at iconic locations, including in particular the Niterói Contemporary Art Museum, Oscar Niemoyer's architectural masterpiece on the bay of Rio, chosen for the third Louis Vuitton Cruise Fashion Show and the campaign featuring actress Alicia Vikander. Louis Vuitton continued the quality-driven development of its retail network, including the renovation of flagship stores in Hong Kong (Canton Road and Landmark).

**Fendi** had another remarkable year, with revenue exceeding the symbolic billion-euro mark thanks to sustained growth, new market share gains and the expansion of its international presence. A highlight of 2016 was the Rome-based Fashion house's 90th birthday, culminating in an Haute Couture show at the Trevi Fountain in July. With its increasingly confident style, ready-to-wear fashion went from strength to strength. The leather goods business was buoyed by strong demand for the iconic *Peekaboo*.

Driven by its constant pursuit of excellence, **Loro Piana** continued to grow, expressing itself through a campaign celebrating its passion for the treasures of nature. It expanded its offering with its new *Gift of Kings* womenswear collection and developed its *The Blend* collection, combining vicuña down and baby cashmere. In 2016, Loro Piana also opened a flagship store on Avenue Montaigne in Paris.

Momentum at **Céline** was driven by development across its product categories. The brand's footwear and ready-to-wear lines made strong contributions to the company's excellent performance. Céline continued to expand its network of boutiques, re-opening its flagship store in Milan and opening its first store in Spain, in Barcelona.

**Kenzo** had a good year, with revenue up and visibility boosted by an adapted communications and digital strategy. The brand strengthened its positioning and developed its range of footwear and accessories. In the latter part of the year, the collection born out of the "Kenzo x H&M" cooperation, launched in 80 countries and online, met with good success.

Reflecting the success of its stylistic evolution, business accelerated at **Loewe** in 2016. Two years after its launch, the *Puzzle* bag confirmed its best-seller status. At the same time as gradually developing its ready-to-wear offering, the company continued to improve its store network, as witnessed by the opening of its new Casa Loewe store in Madrid.

**Givenchy** focused its efforts on women's ready-to-wear fashion and leather goods and continued to selectively develop its retail network.

**Berluti** made progress across all its markets by strengthening its top-end collections and successfully launching new products in the "casual" segment, including the new *Fast Track* sneaker. Haider Ackermann joined Berluti as creative director in September.

**Marc Jacobs** continued with the strategic repositioning of its collections. **Thomas Pink** recorded growth in online revenue. **Pucci** enriched its collection of silk scarves, celebrating several iconic cities of the world.

**Donna Karan** was sold to US group G-III in December.

LVMH announced the acquisition of a majority stake in **Rimowa**, a leader in high-quality luggage. This makes Rimowa the first German brand to join the LVMH group.

## Outlook

In 2017, **Louis Vuitton** will seek to maintain its creative momentum and continue with its quest for excellence across all its businesses. With different initiatives, the brand will continue to strengthen and revisit its iconic and timeless product lines. Growth will be supported by communications that revolve around key events in the year and by continued exhibitions around the world focusing on Louis Vuitton's history and universe. Quality improvements in the retail network will continue, with the constant aim of offering customers a unique experience and unparalleled service. To continue its developments, **Fendi** will place innovation center stage with a number of product launches that will help reinforce the sophisticated style of its products. It will continue to expand geographically, moving into key cities and new markets. **Loro Piana** will expand its collections with an emphasis on its iconic products as well as continuing to develop its store network, particularly in Asia. Each of the business group's brands will pursue its strategic goals and continue to strengthen its business model, with the key drivers of growth being creativity in collections, product desirability and retail excellence.

# 4. PERFUMES AND COSMETICS

| | 2016 | 2015 [a] | 2014 [a] |
|---|---|---|---|
| **Revenue** *(EUR millions)* | 4,953 | 4,671 | 4,006 |
| **Revenue by product category** *(%)* | | | |
| Perfumes | 38 | 41 | 43 |
| Makeup | 44 | 40 | 39 |
| Skincare products | 18 | 19 | 18 |
| **Total** | 100 | 100 | 100 |
| **Revenue by geographic region of delivery** *(%)* | | | |
| France | 12 | 12 | 13 |
| Europe (excluding France) | 25 | 26 | 30 |
| United States | 18 | 14 | 13 |
| Japan | 5 | 4 | 4 |
| Asia (excluding Japan) | 28 | 29 | 26 |
| Other markets | 12 | 15 | 14 |
| **Total** | 100 | 100 | 100 |
| **Profit from recurring operations** *(EUR millions)* | 551 | 524 | 413 |
| **Operating margin** *(%)* | 11.1 | 11.2 | 10.6 |
| **Operating investments of the period** *(EUR millions)* | 268 | 233 | 223 |
| **Number of stores** | 248 | 204 | 162 |

(a) See Note 23.1 Information by business group to the condensed consolidated financial statements.

## Highlights

The Perfumes and Cosmetics business group recorded good growth and new market share gains in a competitive environment. The key drivers of this momentum were the brands' image, innovation and the vibrancy of the flagship product lines as well as a commitment to excellence, from product design to distribution.

**Parfums Christian Dior** posted robust performances and continued to gain market share in all regions worldwide. Momentum in the perfume category was driven by the success of the men's fragrance *Sauvage*, which already ranks among the world's market leaders, and by the strong vitality of its women's fragrances. The launch of *Poison Girl* reenergized the entire product line, while *J'adore* reinvented itself with a new eau de toilette and *Miss Dior* gained ever further in popularity due to the success of its *Absolutely Blooming* version. The brand reaffirmed its reputation as one of the world's great perfume brands by expanding its presence in Grasse, particularly with the opening of its new fragrance-creation laboratory, Les Fontaines Parfumées, where François Demachy, the House's perfumer-designer, will create Dior's future fragrances. Inspired by the creative flair of Peter Philips, makeup maintained its leadership position thanks to its bold collections and the reinvention of certain core Dior products, such as *Diorskin Forever* foundation and *Rouge Dior*, whose icon is Natalie Portman. Skincare benefited from major innovations in the premium *Prestige* line, a number of launches in the cushions product category and the continued international success of *Dreamskin*.

**Guerlain**'s development was driven by the success of the new makeup collection inspired by its fragrance *La Petite Robe Noire*, with the global rollout of a line of lipsticks and nail polish. A new version of the fragrance – *Intense* – was also launched. The *Orchidée Impériale* and *Abeille Royale* lines ensure Guerlain's growth in the skincare industry and illustrate its efforts to protect biodiversity. A new boutique concept exclusively dedicated to perfumes was created in Paris, giving Guerlain an opportunity to showcase its reputation as one of France's iconic perfume houses and demonstrate an ever-changing customer experience.

**Parfums Givenchy**'s growth is striking in Asia. Its makeup posted strong growth, driven by the success of the *Le Rouge* lipstick line and *Prisme Libre* face powder. **Kenzo Parfums** benefited from the launch of its new women's fragrance, *Kenzo World*, designed in collaboration with Kenzo's creative directors Carol Lim and Humberto Leon, and promoted by a commercial that received extensive attention.

**Benefit** maintained its momentum. The success of its *Brow Collection*, the largest launch of the brand, earned Benefit the leading position in this high-growth makeup segment. The year was marked by the launch of a new website in 24 countries, with a version in each local language perfectly adapted for mobile devices. Revenue of **Make Up For Ever** recorded growth in every region in the world, a momentum largely driven by the *Ultra HD* and *Artist Rouge* lines. It accelerated its digital strategy and opened its first interactive space in the Sephora store on the Champs-Élysées, the first space allowing customers to learn makeup techniques interactively. **Fresh** recorded solid gains, opened two points of sale in Paris and introduced a highly innovative skincare line named *Vitamin Nectar*. **Acqua di Parma** celebrated its 100th anniversary by feting its hometown of Parma, Italy and launching three *Note de Colonia* fragrances. The **Kat Von D** and **Marc Jacobs Beauty** makeup lines made very strong progress. **Parfums Loewe** did well in Asian markets with the launch of *Loewe 001*, in close collaboration with the couture house.

## Outlook

Going into 2017, LVMH's Perfumes and Cosmetics brands are setting new targets for market share gains and will again make innovation a core pillar of their accomplishments. **Parfums Christian Dior** will place special emphasis on strengthening its products, *J'adore*, *Miss Dior* and *Sauvage*, and will focus on making *Poison Girl* and *Dior Homme Sport* more attractive to young generations. Makeup will benefit from major innovations and the increased use of digital communications. *Prestige* and *Capture Totale* will be given a boost to drive growth in the skincare sector. The brand will continue to cultivate its aura in synergy with Couture Dior as well as its reputation as one of the world's great perfume houses, while continuing to invest in boutiques and sales counters devoted to excellence and contemporary trends. In addition to supporting *La Petite Robe Noire*, its iconic skincare lines and lip and foundation segments in the makeup sector, **Guerlain** will launch a women's fragrance in March. **Parfums Givenchy** will take advantage of major innovations to accelerate the development of its makeup business, while launching a new communications campaign for its perfumes. **Kenzo Parfums** will continue the global roll-out of *Kenzo World* and will launch a new version of *Flower by Kenzo*. **Benefit** will continue its international expansion while striving to strengthen its global leadership position in the eyebrow segment. **Make Up For Ever** will maintain its strong innovation policy in the complexion, lip and eye segment. **Kat Von D** will begin its international expansion with the French market. Lastly, a new full makeup line will be launched in collaboration with the singer Rihanna.

# 5. WATCHES AND JEWELRY

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| **Revenue** *(EUR millions)* | 3,468 | 3,308 | 2,782 |
| **Revenue by geographic region of delivery** *(%)* | | | |
| France | 5 | 7 | 6 |
| Europe (excluding France) | 26 | 25 | 27 |
| United States | 10 | 11 | 12 |
| Japan | 14 | 13 | 13 |
| Asia (excluding Japan) | 28 | 27 | 26 |
| Other markets | 17 | 17 | 16 |
| **Total** | 100 | 100 | 100 |
| **Profit from recurring operations** *(EUR millions)* | 458 | 432 | 283 |
| **Operating margin** *(%)* | 13.2 | 13.1 | 10.2 |
| **Operating investments of the period** *(EUR millions)* | 229 | 204 | 191 |
| **Number of stores** | 397 | 395 | 380 |

## Highlights

The Watches and Jewelry business group continued to grow in an uncertain economic environment, winning market share thanks to its masterful watchmaking and jewelry-making expertise, the strength of its brands' iconic product lines and the creativity of their new products. Targeted communications investments and selective expansion of the group's networks of boutiques helped improve LVMH brands' profile and momentum.

Revenue growth at **Bvlgari** outpaced the market, with progress in China, South Korea and the Middle East, especially in jewelry. Jewelry continued to benefit from the company's creative momentum. Enhanced by various new models, the *Diva* and *B.zero1* lines maintained their success. The *Diva* and *Lvcea* watches confirmed their growth potential, while in the challenging market for men's watches *Octo* continued to make progress following a record year in 2015. Leather goods continued to post solid growth thanks to the *Serpenti* collection. The recent *Serpenti Seduttori* collection also contributed to business growth. Store performance was boosted by the program of selective boutique openings and major renovations, as seen in the Washington D.C., London New Bond Street and Moscow Petrovska boutiques. Bvlgari's Italian excellence and deep reserves of creativity were illustrated by new exhibitions around the world and events designed around key company themes such as *Roman Heritage* and *Mediterranean Eden*.

The revenue growth reported by **TAG Heuer** in a challenging overall watch market underscored the relevance of the brand's strategy of developing its core product range. The brand's momentum was buoyed by product launches adding to its iconic *Carrera*, *Aquaracer* and *Formula 1* lines. Highlighting TAG Heuer's reputation as a pioneer, the brand continued to successfully roll out its connected watch across all markets. The company continued to improve its store network, opening new stores in Melbourne, Kuala Lumpur, Tianjin and Macao. The brand's visibility among its target customers and its social media presence were strengthened by new ambassadors and a number of partnerships, including those with the BMC cycling team, the Red Bull Racing Team and, in soccer, the English Premier League and the Chinese Super League.

**Hublot** continued to expand, particularly in Japan, China and the Middle East. Brand performance was driven by the *Classic Fusion* line, which continued to grow alongside the iconic *Big Bang* range. The company expressed its creative flair through a variety of new models, some surprising and others highly technical. Combined with its expertise and manufacturing capability, this ability to innovate puts it among the leading high-end Swiss watchmakers. A new flagship store was opened on Fifth Avenue in New York. Brand awareness was boosted by a busy communications calendar including prestigious partnerships, a strong digital presence, and sporting and cultural events.

**Zenith** maintained its focus on models in its iconic *El Primero* collection and will soon unveil its revolutionary new *El Primero 21* movement. The brand continued to consolidate its organization while benefiting from the synergies offered by the Group and its other watchmaking businesses.

Growth at **Chaumet**, particularly in Asia, was stimulated by the success of its *Joséphine* and *Lien* lines and its continued shift further upmarket. New designs were added to flagship lines. Fine jewelry was boosted by the launch of a new *Nature de Chaumet* collection whose products were presented in a traveling exhibition in Europe and Asia.

**De Beers** consolidated its position as industry leader in the solitaire diamonds segment. **Fred** continued to grow, buoyed by its iconic *Force 10* line. The brand opened two stores in South Korea.

## Outlook

The Watches and Jewelry business group is actively pursuing its market share growth target. Over the coming months, LVMH will focus on boosting its brands' visibility and reputation for excellence in the most buoyant regions through sustained investment, particularly in the digital arena. Selective new store openings will take place at prestigious, high-traffic locations. **Bvlgari** plans to open its new Fifth Avenue boutique in New York in late 2017. **Hublot** will accelerate the targeted expansion of its own stores, while **Chaumet** will continue rolling out the new store concept it launched in Hong Kong at the end of 2016. As well as their masterful watchmaking and jewelry-making expertise, the brands' innovation – a key driver of growth – will remain at center stage, allowing them to enhance their collections while maintaining a constant focus on excellence and creativity. **TAG Heuer** will continue to develop its smartwatch, in particular. In an uncertain economic and geopolitical environment, this strategy will go hand-in-hand with a highly attentive approach to markets and strict control over costs. Investment will be targeted at improving the quality, productivity and profitability of retail networks. Production capacity will be developed to enable the group to maintain its world-class craftsmanship and technological leadership. Bvlgari's growth will be supported by its new jewelry manufacturing facility in Valenza, which started operating in January 2017. The facility will eventually create more than 300 new jobs for craftspeople, reflecting Bvlgari's focus on developing skilled jobs in the jewelry profession.

# 6. SELECTIVE RETAILING

| | 2016 | 2015 [a] | 2014 [a] |
|---|---|---|---|
| **Revenue** *(EUR millions)* | 11,973 | 11,193 | 9,520 |
| **Revenue by geographic region of delivery** *(%)* | | | |
| France | 12 | 13 | 15 |
| Europe (excluding France) | 8 | 8 | 9 |
| United States | 41 | 39 | 35 |
| Japan | 1 | 2 | 1 |
| Asia (excluding Japan) | 27 | 29 | 31 |
| Other markets | 11 | 9 | 9 |
| **Total** | 100 | 100 | 100 |
| **Profit from recurring operations** *(EUR millions)* | 919 | 940 | 884 |
| **Operating margin** *(%)* | 7.7 | 8.4 | 9.3 |
| **Operating investments of the period** *(EUR millions)* | 558 | 395 | 387 |
| **Number of stores** | | | |
| Sephora | 1,726 | 1,626 | 1,560 |
| Other trade names | 52 | 52 | 54 |

(a) See Note 23.1 Information by business group to the condensed consolidated financial statements.

## Highlights

**Sephora** achieved new double-digit revenue growth and gained market share worldwide. Its particularly remarkable performance in the United States propelled the brand to highest echelon of the selective beauty market. Sephora currently has over 1,700 stores in 33 countries and is growing steadily. In 2016, it opened its first stores in Switzerland and inaugurated several iconic locations, including La Canopée in Paris and the World Trade Center in New York City. Sephora continued to upgrade its existing network to provide an enhanced customer experience focused on digital engagement and services. The ION Orchard store in Singapore and the Prudential store in Boston in particular were fully renovated. The brand's strategy was more omni-channel than ever, with efforts focused on developing mobile applications, offering in-store digital features and reducing delivery time. The online sales offering rapidly expanded its scope, with six new countries including Spain and the United Arab Emirates. Sephora continued to focus on selecting an innovative array of products, adding more exclusive brands to its range and offering a new line-up aimed at younger customers. These initiatives were amplified by a strong social media presence.

A selective offering combined with excellent customer service helped **Le Bon Marché** achieve strong growth, especially in accessories. 2016 witnessed the transformation of its Women's Fashion department, which is now dotted with trees beneath its magnificent glass ceilings. The launch of La Grande Épicerie de Paris' own-label products was a great success. On the agenda were several exciting events: the first half of the year featured exhibitions by Chinese artist Ai Weiwei and Iris Apfel, which enjoyed exceptional media coverage, followed by the "Paris!" event in September. The "24 Sèvres" loyalty program continued to win over customers, helping expand and strengthen ties with the store's French clientele. International customers, won over by the store's culturally rich, Parisian atmosphere, also contributed to its growth.

In 2016, the challenging tourism context in Asia continued to affect the travel retail sector, causing a drop in revenue for **DFS** and other businesses operating in the Hong Kong and Macao tourist markets. DFS responded to this situation by stepping up its efforts to adapt to fluctuating customer levels and changing purchasing behavior. Stores have tailored their offerings in particular by introducing new brands and enriching their ranges with new product categories. These initiatives were accompanied by expansion to new destinations, which are essential for future growth. In Cambodia, the *T Galleria* near the ruins of Angkor is the destination for visitors wishing to combine a shopping experience with their exploration of this fabulous site. In Macao, the *T Galleria City of Dreams* underwent an innovative expansion that included creating the largest luxury shoe salon in Southeast Asia. A new two-story wines and spirits boutique was opened at Changi Airport in Singapore. Lastly, the inauguration of a *T Galleria* in an iconic, historic building by the Grand Canal in Venice – a first in Italy – marked the beginning of DFS's expansion into Europe.

**Starboard Cruise Services** was buoyed by the development of cruise routes in Asia, and continued to enhance its boutiques and fine-tune its selection of products to best serve each cruise line's specific customers.

## Outlook

Driven by the ambition to offer its customers a fresh new experience in the world of beauty, **Sephora** continued to focus on the strategic foundations on which it has built its success: highly dedicated, expert staff; an innovative selection of products; a growing range of exclusive, customized services; and more and more digital initiatives. It will go on opening new stores and renovating its network at a sustained pace. **Le Bon Marché** will continue to cultivate its uniqueness, its identity as a major trendsetter and its cultural agenda. This year's highlights will include the completed transformation of the Women's Fashion department and, at the end of the year, a new Grande Épicerie de Paris on the city's Right Bank. At **DFS**, the concession at Hong Kong International Airport is expected to post another loss. However, DFS will benefit from the ramp-up of its new stores in Cambodia, Macao and Venice. The expanded *Loyal T* program, the launch of its new e-commerce platform and the renovation of its historic stores in Auckland and Sydney will help DFS continue its transformation while raising the profile and enhancing the appeal of the *T Galleria* brand. **Starboard Cruise Services** will continue fine-tuning its offerings by cruise route and investing in the transformation of its boutiques to win over customers and provide them with unique experiences.

# 7. COMMENTS ON THE CONSOLIDATED BALANCE SHEET

| *(EUR billions)* | 2016 | 2015 | Change |
|---|---|---|---|
| Tangible and intangible assets | 35.9 | 34.9 | 1.0 |
| Other non-current assets | 4.3 | 3.8 | 0.5 |
| **Non-current assets** | **40.2** | **38.7** | **1.5** |
| Inventories | 10.5 | 10.1 | 0.4 |
| Other current assets | 8.9 | 8.8 | 0.1 |
| **Current assets** | **19.4** | **18.9** | **0.5** |
| **Assets** | **59.6** | **57.6** | **2.0** |

| *(EUR billions)* | 2016 | 2015 | Change |
|---|---|---|---|
| Total equity | 27.9 | 25.8 | 2.1 |
| Long term borrowings | 3.9 | 4.5 | (0.6) |
| Other non-current liabilities | 15.0 | 14.6 | 0.4 |
| **Equity and non-current liabilities** | **46.8** | **44.9** | **1.9** |
| Short term borrowings | 3.4 | 3.7 | (0.3) |
| Other current liabilities | 9.4 | 9.0 | 0.4 |
| **Current liabilities** | **12.8** | **12.7** | **0.1** |
| **Liabilities and equity** | **59.6** | **57.6** | **2.0** |

LVMH's consolidated balance sheet totaled 59.6 billion euros as of year-end 2016, representing a 3.5% increase from year-end 2015. Non-current assets rose by 1.5 billion euros and represented 67% of total assets, as was the case at year-end 2015.

Tangible and intangible fixed assets grew by 1.0 billion euros, of which 0.3 billion euros were due to the revaluation of purchase commitments for minority interests, and 0.2 billion euros were due to exchange rate fluctuations. Investments for the year, net of amortization and depreciation charges and disposals, represented an additional increase of 0.9 billion euros. The comments on the cash flow statement provide further information on investments. Conversely, changes in scope had a negative impact of 0.4 billion euros, essentially due to the disposal of Donna Karan in December 2016.

Other non-current assets increased by 0.5 billion euros, amounting to 4.3 billion euros, as a result of the increase in non-current available for sale financial assets for 0.2 billion euros, as well as the increases in deferred tax assets and in loans and receivables for 0.1 billion euros each. See also Notes 8 and 9 to the condensed consolidated financial statements.

Inventories increased by 0.4 billion euros. The comments on the cash flow statement provide further information on this change.

Other current assets grew slightly, by 0.1 billion euros, with the 0.2 billion euro increase in operating receivables (mainly trade accounts receivable) offset by the decrease in income tax receivables. The cash balance remained stable.

Other non-current liabilities, totaling 15.0 billion euros, increased by 0.4 billion euros, due to the 0.5 billion euro increase in the liability in respect of purchase commitments for minority interests and the 0.4 billion euro increase in provisions, the impacts of which were partially offset by the 0.5 billion euro decrease in deferred tax liabilities.

Lastly, other current liabilities increased by 0.4 billion euros, totaling 9.4 billion euros, of which 0.4 billion euros related to the increase in trade accounts payable and other operating payables, and 0.1 billion euros to increased tax and social charge liabilities, offset by the 0.2 billion euro decrease in income tax payable.

### Net financial debt and equity

| *(EUR billions or as %)* | 2016 | 2015 | Change |
|---|---|---|---|
| Long-term borrowings | 3.9 | 4.5 | (0.6) |
| Short-term borrowings and derivatives | 3.4 | 3.7 | (0.3) |
| **Gross borrowings after derivatives** | **7.3** | **8.2** | **(0.9)** |
| Cash and cash equivalents and other | (4.0) | (4.0) | - |
| **Net financial debt** | **3.3** | **4.2** | **(0.9)** |
| **Equity** | **27.9** | **25.8** | **2.1** |
| **Net financial debt/ Total equity ratio** | **12%** | **16%** | **-4 pts** |

The ratio of net financial debt to equity, which was 16% as of December 31, 2015, falling by 4 points to 12%, thanks to the combined impact of the increase in equity, for 2.1 billion euros, and the reduction in net financial debt, for 0.9 billion euros.

Total equity amounted to 27.9 billion euros as of year-end 2016, up 2.1 billion euros compared to year-end 2015. This change primarily reflects the strong earnings achieved by the Group, distributed only partially, representing a net increase of 2.3 billion euros. In addition to this, the change in revaluation reserves had a positive impact of 0.1 billion euros. Conversely, the increase in treasury shares had a negative impact of 0.3 billion euros, driven in particular by the share repurchase program set up in the fourth quarter. As of December 31, 2016, total equity was equal to 47% of total assets, compared to 45% as of year-end 2015.

Gross borrowings after derivatives totaled 7.3 billion euros as of year-end 2016, representing a 0.9 billion euro decrease compared to year-end 2015, mainly due to the significant decrease in commercial paper outstanding for 1 billion euros. Bond debt was stable with regard to December 31, 2015, with the fiscal year's redemptions equal to issues. During the year, LVMH redeemed the bond issued in 2013 and the 2014 tap issue, for a total of 650 million euros. In February 2016, LVMH issued five-year synthetic convertible bonds redeemable in cash, for a 600 million US dollar bond, with a 150 million US dollar tap issue carried out in April 2016. Cash, cash equivalents, and current and non-current available for sale financial assets used to hedge financial debt totaled 4.0 billion euros at the end of the fiscal year, remaining stable with respect to year-end 2015.

As of year-end 2016, the Group's undrawn confirmed credit lines amounted to 3.4 billion euros, substantially exceeding the outstanding portion of its commercial paper program, which came to 1.2 billion euros as of December 31, 2016.

# 8. COMMENTS ON THE CONSOLIDATED CASH FLOW STATEMENT

| *(EUR millions)* | 2016 | 2015 | Change |
|---|---|---|---|
| **Cash from operations before changes in working capital** | 8,733 | 7,945 | 788 |
| Cost of net financial debt: interest paid | (59) | (75) | 16 |
| Income taxes paid | (1,923) | (1,807) | (116) |
| **Net cash from operating activities before changes in working capital** | **6,751** | **6,063** | **688** |
| Change in working capital | (512) | (429) | (83) |
| Operating investments | (2,265) | (1,955) | (310) |
| **Free cash flow** | **3,974** | **3,679** | **295** |
| **Financial investments** | **(82)** | **(511)** | **429** |
| **Transactions relating to equity** | **(2,564)** | **(2,090)** | **(474)** |
| **Change in cash before financing activities** | **1,328** | **1,078** | **250** |

Cash from operations before changes in working capital totaled 8,733 million euros, up 10% from 7,945 million euros a year earlier. Net cash from operating activities before changes in working capital (i.e. after interest and income taxes paid) amounted to 6,751 million euros, up 11% from fiscal year 2015.

Interest paid, which totaled 59 million euros, was down significantly compared to its 2015 amount, thanks to the impacts of lower interest rates on borrowings, as well as the reduction in net financial debt.

Income taxes paid came to 1,923 million euros, up 6% compared to the 1,807 million euros paid a year earlier, in line with the Group's earnings growth.

The 512 million euro increase in the working capital requirement was similar to the 429 million euro increase observed a year earlier. Although the cash requirement relating to the increase in inventories was higher than in 2015 (819 million euros versus 569 million euros a year earlier), the financing provided by the increase in trade accounts payable and tax and social charge liabilities also saw a greater increase than in 2015 (420 million euros in 2016 compared with 189 million euros in 2015). The increase in inventories mainly related to Selective Retailing and Wines and Spirits.

Operating investments net of disposals resulted in an outflow of 2,265 million euros in 2016, compared to 1,955 million euros a year earlier. They included investments by Sephora, Louis Vuitton, DFS, and Bvlgari in their retail networks; investments by the champagne houses and Hennessy in their production equipment; and investments in real estate for administrative use, sales operations or rental purposes. Non-current available for sale financial assets and transactions in consolidated investments accounted for an 82 million euro outflow in 2016. 310 million euros were received following transactions in consolidated investments, mainly the disposal of Donna Karan. Tax paid on financial investments and consolidated investments, particularly on the disposal of Donna Karan, accounted for an outflow of 461 million euros.

Transactions relating to equity generated an outflow of 2,564 million euros. A portion of this amount, 1,810 million euros, related to dividends paid during the fiscal year by LVMH SE, excluding the amount attributable to treasury shares, of which 1,106 million euros were for the final dividend payment in respect of fiscal year 2015 and 704 million euros were for the interim dividend payment in respect of fiscal year 2016. In addition, dividends paid out to minority shareholders of consolidated subsidiaries amounted to 267 million euros and income taxes paid on transactions relating to equity amounted to 145 million euros. Share repurchases in 2016, particularly as part of the program set up in the fourth quarter, generated an outflow of 352 million euros. Acquisitions of minority interests generated an additional outflow of 95 million euros (see Note 2 to the condensed consolidated financial statements). Conversely, share subscription options exercised during the fiscal year and capital increases subscribed by minority shareholders of Group subsidiaries generated an inflow of 105 million euros.

The net cash inflow after all operating, investment, and equity-related activities thus amounted to 1,328 million euros. 1,334 million euros were used to reduce debt, and after the negative impact of the change in the cumulative translation adjustment of 47 million euros, the cash balance at the end of the fiscal year was stable with regard to year-end 2015.

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

# CONSOLIDATED INCOME STATEMENT

| *(EUR millions, except for earnings per share)* | Notes | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| **Revenue** | 23 | **37,600** | **35,664** | **30,638** |
| Cost of sales | | (13,039) | (12,553) | (10,801) |
| **Gross margin** | | **24,561** | **23,111** | **19,837** |
| Marketing and selling expenses | | (14,607) | (13,830) | (11,744) |
| General and administrative expenses | | (2,931) | (2,663) | (2,373) |
| Income (loss) from joint ventures and associates | 7 | 3 | (13) | (5) |
| **Profit from recurring operations** | 23-24 | **7,026** | **6,605** | **5,715** |
| Other operating income and expenses | 25 | (122) | (221) | (284) |
| **Operating profit** | | **6,904** | **6,384** | **5,431** |
| Cost of net financial debt | | (83) | (78) | (115) |
| Other financial income and expenses | | (349) | (336) | 3,062 |
| **Net financial income (expense)** | 26 | **(432)** | **(414)** | **2,947** |
| Income taxes | 27 | (2,109) | (1,969) | (2,273) |
| **Net profit before minority interests** | | **4,363** | **4,001** | **6,105** |
| Minority interests | 17 | (382) | (428) | (457) |
| **Net profit, Group share** | | **3,981** | **3,573** | **5,648** |
| **Basic Group share of net earnings per share** *(EUR)* | 28 | **7.92** | **7.11** | **11.27** |
| Number of shares on which the calculation is based | | 502,911,125 | 502,395,491 | 501,309,369 |
| **Diluted Group share of net earnings per share** *(EUR)* | 28 | **7.89** | **7.08** | **11.21** |
| Number of shares on which the calculation is based | | 504,640,459 | 504,894,946 | 503,861,733 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE GAINS AND LOSSES

| *(EUR millions)* | Notes | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| **Net profit before minority interests** | | **4,363** | **4,001** | **6,105** |
| Translation adjustments | 15.4 | 109 | 631 | 534 |
| Amounts transferred to income statement | | (32) | - | - |
| Tax impact | | (9) | 135 | 104 |
| | | **68** | **766** | **638** |
| Change in value of available for sale financial assets | 8, 13 | 18 | (32) | 494 |
| Amounts transferred to income statement | | 4 | (91) | (3,326) |
| Tax impact | | 1 | 20 | 184 |
| | | **23** | **(103)** | **(2,648)** |
| Change in value of hedges of future foreign currency cash flows | | 48 | (63) | (30) |
| Amounts transferred to income statement | | (26) | 33 | (163) |
| Tax impact | | (2) | 3 | 57 |
| | | **20** | **(27)** | **(136)** |
| **Gains and losses recognized in equity, transferable to income statement** | | **111** | **636** | **(2,146)** |
| Change in value of vineyard land | 6 | 30 | 64 | (17) |
| Amounts transferred to consolidated reserves | | - | - | (10) |
| Tax impact | | 108 | (21) | 9 |
| | | **138** | **43** | **(18)** |
| Employee benefit commitments: change in value resulting from actuarial gains and losses | | (86) | 42 | (161) |
| Tax impact | | 17 | (16) | 52 |
| | | **(69)** | **26** | **(109)** |
| **Gains and losses recognized in equity, not transferable to income statement** | | **69** | **69** | **(127)** |
| **Comprehensive income** | | **4,543** | **4,706** | **3,832** |
| Minority interests | | (434) | (558) | (565) |
| **Comprehensive income, Group share** | | **4,109** | **4,148** | **3,267** |

# CONSOLIDATED BALANCE SHEET

| ASSETS<br>*(EUR millions)* | Notes | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Brands and other intangible assets | 3 | 13,335 | 13,572 | 13,031 |
| Goodwill | 4 | 10,401 | 10,122 | 8,810 |
| Property, plant and equipment | 6 | 12,139 | 11,157 | 10,387 |
| Investments in joint ventures and associates | 7 | 770 | 729 | 519 |
| Non-current available for sale financial assets | 8 | 744 | 574 | 580 |
| Other non-current assets | 9 | 777 | 552 | 489 |
| Deferred tax | | 2,058 | 1,945 | 1,436 |
| **Non-current assets** | | **40,224** | **38,651** | **35,252** |
| Inventories and work in progress | 10 | 10,546 | 10,096 | 9,475 |
| Trade accounts receivable | 11 | 2,685 | 2,521 | 2,274 |
| Income taxes | | 280 | 384 | 354 |
| Other current assets | 12 | 2,343 | 2,355 | 1,916 |
| Cash and cash equivalents | 14 | 3,544 | 3,594 | 4,091 |
| **Current assets** | | **19,398** | **18,950** | **18,110** |
| **Total assets** | | **59,622** | **57,601** | **53,362** |

| LIABILITIES AND EQUITY<br>*(EUR millions)* | Notes | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Share capital | 15.1 | 152 | 152 | 152 |
| Share premium account | 15.1 | 2,601 | 2,579 | 2,655 |
| Treasury shares and LVMH share-settled derivatives | 15.2 | (520) | (240) | (374) |
| Cumulative translation adjustment | 15.4 | 1,165 | 1,137 | 492 |
| Revaluation reserves | | 1,049 | 949 | 1,019 |
| Other reserves | | 17,965 | 16,189 | 12,171 |
| Net profit, Group share | | 3,981 | 3,573 | 5,648 |
| Equity, Group share | | 26,393 | 24,339 | 21,763 |
| Minority interests | 17 | 1,510 | 1,460 | 1,240 |
| **Total equity** | | **27,903** | **25,799** | **23,003** |
| Long-term borrowings | 18 | 3,932 | 4,511 | 5,054 |
| Non-current provisions | 19 | 2,342 | 1,950 | 2,291 |
| Deferred tax | | 4,137 | 4,685 | 4,392 |
| Other non-current liabilities | 20 | 8,498 | 7,957 | 6,447 |
| **Non-current liabilities** | | **18,909** | **19,103** | **18,184** |
| Short-term borrowings | 18 | 3,447 | 3,769 | 4,189 |
| Trade accounts payable | 21.1 | 4,184 | 3,960 | 3,606 |
| Income taxes | | 428 | 640 | 549 |
| Current provisions | 19 | 352 | 421 | 332 |
| Other current liabilities | 21.2 | 4,399 | 3,909 | 3,499 |
| **Current liabilities** | | **12,810** | **12,699** | **12,175** |
| **Total liabilities and equity** | | **59,622** | **57,601** | **53,362** |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| *(EUR millions)* | Number of shares | Share capital | Share premium account | Treasury shares and LVMH-share settled derivatives | Cumulative translation adjustment | Revaluation reserves | | | | Net profit and other reserves | Total equity | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Available for sale financial assets | Hedges of future foreign currency cash flows | Vineyard land | Employee benefit commit-ments | | Group share | Minority interests | Total |
| Notes | | 15.1 | | 15.2 | 15.4 | | | | | | | 17 | |
| **As of December 31, 2013** | **507,793,661** | **152** | **3,849** | **(451)** | **(8)** | **2,855** | **136** | **946** | **(37)** | **19,437** | **26,879** | **1,028** | **27,907** |
| Gains and losses recognized in equity | | | | | 500 | (2,648) | (122) | (15) | (96) | - | (2,381) | 108 | (2,273) |
| Net profit | | | | | | | | | | 5,648 | 5,648 | 457 | 6,105 |
| **Comprehensive income** | | **-** | **-** | **-** | **500** | **(2,648)** | **(122)** | **(15)** | **(96)** | **5,648** | **3,267** | **565** | **3,832** |
| Stock option plan and similar expenses | | | | | | | | | | 37 | 37 | 2 | 39 |
| (Acquisition)/disposal of treasury shares and LVMH share-settled derivatives | | | | 27 | | | | | | (17) | 10 | - | 10 |
| Exercise of LVMH share subscription options | 980,323 | | 59 | | | | | | | | 59 | - | 59 |
| Retirement of LVMH shares | (1,062,271) | | (50) | 50 | | | | | | | - | - | - |
| Capital increase in subsidiaries | | | | | | | | | | | - | 3 | 3 |
| Interim and final dividends paid | | | | | | | | | | (1,579) | (1,579) | (328) | (1,907) |
| Distribution in kind of Hermès shares[a] | | | (1,203) | | | | | | | (5,652) | (6,855) | - | (6,855) |
| Changes in control of consolidated entities | | | | | | | | | | (5) | (5) | 11 | 6 |
| Acquisition and disposal of minority interests' shares | | | | | | | | | | (2) | (2) | 32 | 30 |
| Purchase commitments for minority interests' shares | | | | | | | | | | (48) | (48) | (73) | (121) |
| **As of December 31, 2014** | **507,711,713** | **152** | **2,655** | **(374)** | **492** | **207** | **14** | **931** | **(133)** | **17,819** | **21,763** | **1,240** | **23,003** |
| Gains and losses recognized in equity | | | | | 645 | (103) | (25) | 33 | 25 | - | 575 | 130 | 705 |
| Net profit | | | | | | | | | | 3,573 | 3,573 | 428 | 4,001 |
| **Comprehensive income** | | **-** | **-** | **-** | **645** | **(103)** | **(25)** | **33** | **25** | **3,573** | **4,148** | **558** | **4,706** |
| Stock option plan and similar expenses | | | | | | | | | | 35 | 35 | 2 | 37 |
| (Acquisition)/disposal of treasury shares and LVMH share-settled derivatives | | | | 23 | | | | | | (13) | 10 | - | 10 |
| Exercise of LVMH share subscription options | 552,137 | | 35 | | | | | | | | 35 | - | 35 |
| Retirement of LVMH shares | (1,124,740) | | (111) | 111 | | | | | | | - | - | - |
| Capital increase in subsidiaries | | | | | | | | | | | - | 89 | 89 |
| Interim and final dividends paid | | | | | | | | | | (1,659) | (1,659) | (229) | (1,888) |
| Changes in control of consolidated entities | | | | | | | | | | (9) | (9) | 1 | (8) |
| Acquisition and disposal of minority interests' shares | | | | | | | | | | 5 | 5 | (3) | 2 |
| Purchase commitments for minority interests' shares | | | | | | | | | | 11 | 11 | (198) | (187) |
| **As of December 31, 2015** | **507,139,110** | **152** | **2,579** | **(240)** | **1,137** | **104** | **(11)** | **964** | **(108)** | **19,762** | **24,339** | **1,460** | **25,799** |
| Gains and losses recognized in equity | | | | | 28 | 23 | 19 | 113 | (55) | - | 128 | 52 | 180 |
| Net profit | | | | | | | | | | 3,981 | 3,981 | 382 | 4,363 |
| **Comprehensive income** | | **-** | **-** | **-** | **28** | **23** | **19** | **113** | **(55)** | **3,981** | **4,109** | **434** | **4,543** |
| Stock option plan and similar expenses | | | | | | | | | | 39 | 39 | 2 | 41 |
| (Acquisition)/disposal of treasury shares and LVMH share-settled derivatives | | | | (322) | | | | | | (21) | (343) | - | (343) |
| Exercise of LVMH share subscription options | 907,929 | | 64 | | | | | | | | 64 | - | 64 |
| Retirement of LVMH shares | (920,951) | | (42) | 42 | | | | | | | - | - | - |
| Capital increase in subsidiaries | | | | | | | | | | | - | 41 | 41 |
| Interim and final dividends paid | | | | | | | | | | (1,811) | (1,811) | (272) | (2,083) |
| Changes in control of consolidated entities | | | | | | | | | | (5) | (5) | 22 | 17 |
| Acquisition and disposal of minority interests' shares | | | | | | | | | | (56) | (56) | (35) | (91) |
| Purchase commitments for minority interests' shares | | | | | | | | | | 57 | 57 | (142) | (85) |
| **As of December 31, 2016** | **507,126,088** | **152** | **2,601** | **(520)** | **1,165** | **127** | **8** | **1,077** | **(163)** | **21,946** | **26,393** | **1,510** | **27,903** |

(a) See Note 8 to the 2014 consolidated financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

| *(EUR millions)* | Notes | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| **I. OPERATING ACTIVITIES AND OPERATING INVESTMENTS** | | | | |
| Operating profit | | 6,904 | 6,384 | 5,431 |
| Income/(loss) and dividends from joint ventures and associates | 7 | 18 | 27 | 26 |
| Net increase in depreciation, amortization and provisions | | 2,143 | 2,081 | 1,895 |
| Other computed expenses | | (177) | (456) | (188) |
| Other adjustments | | (155) | (91) | (84) |
| **Cash from operations before changes in working capital** | | **8,733** | **7,945** | **7,080** |
| Cost of net financial debt: interest paid | | (59) | (75) | (116) |
| Income taxes paid | | (1,923) | (1,807) | (1,639) |
| **Net cash from operating activities before changes in working capital** | | **6,751** | **6,063** | **5,325** |
| Change in working capital | 14.2 | (512) | (429) | (718) |
| **Net cash from operating activities** | | **6,239** | **5,634** | **4,607** |
| Operating investments | 14.3 | (2,265) | (1,955) | (1,775) |
| **Net cash from operating activities and operating investments (free cash flow)** | | **3,974** | **3,679** | **2,832** |
| **II. FINANCIAL INVESTMENTS** | | | | |
| Purchase of non-current available for sale financial assets [a] | 8, 13 | (28) | (78) | (57) |
| Proceeds from sale of non-current available for sale financial assets | 8 | 91 | 68 | 160 |
| Dividends received | | 6 | 4 | 69 |
| Income taxes paid related to financial investments and consolidated investments | | (461) | (265) | (237) |
| Impact of purchase and sale of consolidated investments | | 310 | (240) | (167) |
| **Net cash from (used in) financial investments** | | **(82)** | **(511)** | **(232)** |
| **III. TRANSACTIONS RELATING TO EQUITY** | | | | |
| Capital increases of LVMH SE | 15.1 | 64 | 35 | 59 |
| Capital increases of subsidiaries subscribed by minority interests | 17 | 41 | 81 | 3 |
| Acquisition and disposals of treasury shares and LVMH share-settled derivatives | 15.2 | (352) | 1 | 1 |
| Interim and final dividends paid by LVMH SE [b] | 15.3 | (1,810) | (1,671) | (1,619) |
| Income taxes paid related to interim and final dividends paid | | (145) | (304) | (79) |
| Interim and final dividends paid to minority interests in consolidated subsidiaries | 17 | (267) | (228) | (336) |
| Purchase and proceeds from sale of minority interests | 2 | (95) | (4) | 10 |
| **Net cash from (used in) transactions relating to equity** | | **(2,564)** | **(2,090)** | **(1,961)** |
| **Change in cash before financing activities** | | **1,328** | **1,078** | **639** |
| **IV. FINANCING ACTIVITIES** | | | | |
| Proceeds from borrowings | 18.1 | 913 | 1,008 | 2,407 |
| Repayment of borrowings | 18.1 | (2,134) | (2,443) | (2,100) |
| Purchase and proceeds from sale of current available for sale financial assets [a] | 8, 13 | (113) | (3) | (106) |
| **Net cash from (used in) financing activities** | | **(1,334)** | **(1,438)** | **201** |
| **V. EFFECT OF EXCHANGE RATE CHANGES** | | **(47)** | **(33)** | **27** |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (I+II+III+IV+V)** | | **(53)** | **(393)** | **867** |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** | 14.1 | **3,390** | **3,783** | **2,916** |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | 14.1 | **3,337** | **3,390** | **3,783** |
| **TOTAL INCOME TAXES PAID** | | **(2,529)** | **(2,376)** | **(1,955)** |

(a) The cash impact of non-current available for sale financial assets used to hedge net financial debt (see Note 18) is presented under "IV. Financing activities" as "Purchase and proceeds from sale of current available for sale financial assets".

(b) The distribution in kind of Hermès shares in 2014 had no impact on cash, apart from related income tax effects. See Note 8 to the 2014 consolidated financial statements.

# SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

# 1. ACCOUNTING POLICIES

## 1.1. General framework and environment

The consolidated financial statements for the fiscal year ended December 31, 2016 were established in accordance with the international accounting standards and interpretations (IAS/IFRS) adopted by the European Union and applicable on December 31, 2016. These standards and interpretations have been applied consistently to the fiscal years presented. The 2016 consolidated financial statements were approved for publication by the Board of Directors on January 26, 2017.

The consolidated financial statements presented are "condensed", which means that they only include notes that are significant or facilitate understanding of changes in the Group's business activity and financial position during the year. They are extracted from the consolidated financial statements approved by the Board of Directors, which include all of the notes to the financial statements required under IFRS, as adopted in the European Union.

## 1.2. Changes in the accounting framework applicable to LVMH

**Standards, amendments and interpretations for which application became mandatory in 2016**

The amendments to IAS 16 and IAS 41 for biological assets are the only new standards applicable to LVMH with effect from January 1, 2016. The application of these amendments has not had any impact on the Group's financial statements; LVMH does not revalue these assets, given that their market value differs little from their historical cost (see Note 1.13).

**Other changes in the accounting framework and standards for which application will become mandatory later than January 1, 2017**

The Group is following the ongoing discussions held at IFRIC and IASB related to the recognition of purchase commitments for minority interests' shares and changes in their amount. See Note 1.12 for a description of the recognition method applied by LVMH to these commitments.

The impact of the application of IFRS 15 on revenue recognition with effect from January 1, 2018 is being assessed. It should be of little significance in light of the nature of the Group's business activities. The impact of the application of IFRS 9 on financial instruments with effect from January 1, 2018 is also being assessed.

The Group has begun the process of applying IFRS 16 Leases, applicable with effect from January 1, 2019 (subject to its adoption by the European Union). The approximate impact on the balance sheet of the first-time adoption of IFRS 16 may be assessed based on the amount of lease commitments as of December 31, 2016, i.e. 10 billion euros. See Note 30.

## 1.3. First-time adoption of IFRS

The first accounts prepared by the Group in accordance with IFRS were the financial statements for the year ended December 31, 2005, with a transition date of January 1, 2004. IFRS 1 allowed for exceptions to the retrospective application of IFRS at the transition date. The procedures implemented by the Group with respect to these exceptions are as follows:

- business combinations: the exemption from retrospective application was not applied. The recognition of the merger of Moët Hennessy and Louis Vuitton in 1987 and all subsequent acquisitions were restated in accordance with IFRS 3; IAS 36 Impairment of Assets and IAS 38 Intangible Assets were applied retrospectively as of that date;
- foreign currency translation of the financial statements of subsidiaries outside the eurozone: translation reserves relating to the consolidation of subsidiaries that prepare their accounts in foreign currency were reset to zero as of January 1, 2004 and offset against "Other reserves".

## 1.4. Presentation of the financial statements

**Definitions of Profit from recurring operations and Other operating income and expenses**

The Group's main business is the management and development of its brands and trade names. Profit from recurring operations is derived from these activities, whether they are recurring or non-recurring, core or incidental transactions.

"Other operating income and expenses" comprises income statement items, which – due to their nature, amount or frequency – may not be considered inherent to the Group's recurring operations or its profit from recurring operations. This caption reflects in particular the impact of changes in the scope of consolidation, the impairment of goodwill and the impairment and amortization of brands and trade names, as well as any significant amount of gains or losses arising on the disposal of fixed assets, restructuring costs, costs in respect of disputes, or any other non-recurring income or expense which may otherwise distort the comparability of profit from recurring operations from one period to the next.

**Cash flow statement**

Net cash from operating activities is determined on the basis of operating profit, adjusted for non-cash transactions. In addition:

- dividends received are presented according to the nature of the underlying investments; thus, dividends from joint ventures and associates are presented in Net cash from operating activities, while dividends from other unconsolidated entities are presented in Net cash from financial investments;
- tax paid is presented according to the nature of the transaction from which it arises: in Net cash from operating activities for the portion attributable to operating transactions; in Net cash from financial investments for the portion attributable to transactions in available for sale financial assets, notably tax paid on gains from their sale; in Net cash from transactions relating to equity for the portion attributable to transactions in equity, notably distribution taxes arising on the payment of dividends.

## 1.5. Use of estimates

For the purpose of preparing the consolidated financial statements, the measurement of certain balance sheet and income statement items requires the use of hypotheses, estimates or other forms of judgment. This is particularly true of the valuation of intangible assets (see Note 5), the measurement of purchase commitments for minority interests' shares (see Note 20), and the determination of the amount of provisions for contingencies and losses (see Note 19) or for impairment of inventories (see Note 10) and, if applicable, deferred tax assets (see Note 27). Such hypotheses, estimates or other forms of judgment which are undertaken on the basis of the information available, or situations prevalent at the date of preparation of the financial statements, may prove different from the subsequent actual events.

## 1.6. Methods of consolidation

The subsidiaries in which the Group holds a direct or indirect *de facto* or *de jure* controlling interest are fully consolidated.

Jointly controlled companies and companies where the Group has significant influence but no controlling interest are accounted for using the equity method. Although jointly controlled, those entities are fully integrated within the Group's operating activities. LVMH discloses their net profit, as well as that of entities using the equity method (see Note 7), on a separate line, which forms part of profit from recurring operations.

The assets, liabilities, income, and expenses of the Wines and Spirits distribution subsidiaries held jointly with the Diageo group are consolidated only in proportion to the LVMH group's share of operations (see Note 1.25).

## 1.7. Foreign currency translation of the financial statements of entities outside the eurozone

The consolidated financial statements are presented in euros; the financial statements of entities presented in a different functional currency are translated into euros:

- at the period-end exchange rates for balance sheet items;
- at the average rates for the period for income statement items.

Translation adjustments arising from the application of these rates are recorded in equity under "Cumulative translation adjustment".

## 1.8. Foreign currency transactions and hedging of exchange rate risks

Transactions of consolidated companies denominated in a currency other than their functional currencies are translated to their functional currencies at the exchange rates prevailing at the transaction dates.

Accounts receivable, accounts payable and debts denominated in currencies other than the entities' functional currencies are translated at the applicable exchange rates at the fiscal year-end. Gains and losses resulting from this translation are recognized:

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

Foreign exchange gains and losses arising from the translation or elimination of intercompany transactions or receivables and payables denominated in currencies other than the entity's functional currency are recorded in the income statement unless they relate to long-term intercompany financing transactions, which can be considered as transactions relating to equity. In the latter case, translation adjustments are recorded in equity under "Cumulative translation adjustment."

Derivatives that are designated as hedges of commercial transactions denominated in a currency other than the functional currency of the entity are recognized in the balance sheet at their market value (see Note 1.9) at the fiscal year-end, and any change in the market value of such derivatives is recognized:

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

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

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

See also Note 1.21 regarding the definition of the concepts of effective and ineffective portions.

## 1.9. Fair value measurement

Fair value (or market value) is the price that would be obtained from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants.

The assets and liabilities measured at fair value at each balance sheet date are as follows:

| | Approaches to determining fair value | Amounts recorded at balance sheet date |
|---|---|---|
| Vineyard land | Based on recent transactions in similar assets. See Note 1.13. | Note 6 |
| Grape harvests | Based on purchase prices for equivalent grapes. See Note 1.16. | Note 10 |
| Derivatives | Based on market data and according to commonly used valuation models. See Note 1.21. | Note 22 |
| Borrowings hedged against changes in value due to interest rate fluctuations | Based on market data and according to commonly used valuation models. See Note 1.20. | Note 18 |
| Liabilities in respect of purchase commitments for minority interests' shares priced according to fair value | Generally based on the market multiples of comparable companies. See Note 1.12. | Note 20 |
| Available for sale financial assets | Quoted investments: price quotations at the close of trading on the balance sheet date. Non-quoted investments: estimated net realizable value, either according to formulas based on market data or based on private quotations. See Note 1.15. | Note 8, Note 13 |
| Cash and cash equivalents (SICAV and FCP money market funds) | Based on the liquidation value at the balance sheet date. See Note 1.18. | Note 14 |

No other asset or liability has been remeasured at market value at the balance sheet date.

## 1.10. Brands and other intangible assets

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

Brands and trade names are chiefly valued using the forecast discounted cash flow method or based on comparable transactions (i.e. using the revenue and net profit coefficients employed for recent transactions involving similar brands) or stock market multiples observed for related businesses. Other complementary methods may also be employed: the relief from royalty method, involving equating a brand's value with the present value of the royalties required to be paid for its use; the margin differential method, applicable when a measurable difference can be identified in the amount of revenue generated by a branded product in comparison with a similar unbranded product; and finally the equivalent brand reconstitution method involving, in particular, estimation of the amount of advertising and promotion expenses required to generate a similar brand.

Costs incurred in creating a new brand or developing an existing brand are expensed.

Brands, trade names and other intangible assets with finite useful lives are amortized over their estimated useful lives. The classification of a brand or trade name as an asset of definite or indefinite useful life is generally based on the following criteria:

- the brand or trade name's overall positioning in its market expressed in terms of volume of activity, international presence and reputation;
- its expected long-term profitability;
- its degree of exposure to changes in the economic environment;
- any major event within its business segment liable to compromise its future development;
- its age.

Amortizable lives of brands and trade names with definite useful lives range from 15 to 40 years, depending on their estimated period of utilization.

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

Impairment tests are carried out for brands, trade names and other intangible assets using the methodology described in Note 1.14.

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

Intangible assets other than brands and trade names are amortized over the following periods:

- leasehold rights, key money: based on market conditions, generally over the lease period;
- rights attached to sponsorship agreements and media partnerships: over the life of the agreements, depending on how the rights are used;
- development expenditure: three years at most;
- software, websites: one to five years.

## 1.11. Changes in ownership interests in consolidated entities

When the Group takes *de jure* or *de facto* control of a business, its assets, liabilities and contingent liabilities are estimated at their market value as of the date when control is obtained and the difference between the cost of taking control and the Group's share of the market value of those assets, liabilities and contingent liabilities is recognized as goodwill.

The cost of taking control is the price paid by the Group in the context of an acquisition, or an estimate of this price if the transaction is carried out without any payment of cash, excluding acquisition costs, which are disclosed under "Other operating income and expenses".

The difference between the carrying amount of minority interests purchased after control is obtained and the price paid for their acquisition is deducted from equity.

Goodwill is accounted for in the functional currency of the acquired entity.

Goodwill is not amortized but is subject to annual impairment testing using the methodology described in Note 1.14. Any impairment expense recognized is included within "Other operating income and expenses".

## 1.12. Purchase commitments for minority interests' shares

The Group has granted put options to minority shareholders of certain fully consolidated subsidiaries.

Pending specific guidance from IFRSs regarding this issue, the Group recognizes these commitments as follows:

- the value of the commitment at the balance sheet date appears in "Other non-current liabilities";
- the corresponding minority interests are cancelled;
- for commitments granted prior to January 1, 2010, the difference between the amount of the commitments and cancelled minority interests is maintained as an asset on the balance sheet under goodwill, as well as subsequent changes in this difference. For commitments granted as from January 1, 2010, the difference between the amount of the commitments and minority interests is recorded in equity, under "Other reserves".

This recognition method has no effect on the presentation of minority interests within the income statement.

## 1.13. Property, plant and equipment

With the exception of vineyard land, the gross value of property, plant and equipment is stated at acquisition cost. Any borrowing costs incurred prior to the placed-in-service date or during the construction period of assets are capitalized.

Vineyard land is recognized at the market value at the balance sheet date. This valuation is based on official published data for recent transactions in the same region. Any difference compared to historical cost is recognized within equity in "Revaluation reserves". If market value falls below acquisition cost the resulting impairment is charged to the income statement.

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

Buildings mostly occupied by third parties are reported as investment property, at acquisition cost. Investment property is thus not remeasured at market value.

Assets acquired under finance leases are capitalized on the basis of the lower of their market value and the present value of future lease payments.

The depreciable amount of property, plant and equipment comprises the acquisition cost of their components less residual value, which corresponds to the estimated disposal price of the asset at the end of its useful life.

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

| | |
|---|---|
| - buildings including investment property | 20 to 50 years; |
| - machinery and equipment | 3 to 25 years; |
| - leasehold improvements | 3 to 10 years; |
| - producing vineyards | 18 to 25 years. |

Expenses for maintenance and repairs are charged to the income statement as incurred.

## 1.14. Impairment testing of fixed assets

Intangible and tangible fixed assets are subject to impairment testing whenever there is any indication that an asset may be impaired (particularly following major changes in the asset's operating conditions), and in any event at least annually in the case of intangible assets with indefinite useful lives (mainly brands, trade names and goodwill). When the carrying amount of assets with indefinite useful lives is greater than the higher of their value in use or market value, the resulting impairment loss is recognized within "Other operating income and expenses", allocated on a priority basis to any existing goodwill.

Value in use is based on the present value of the cash flows expected to be generated by these assets. Market value is estimated by comparison with recent similar transactions or on the basis of valuations performed by independent experts for the purposes of a disposal transaction.

Cash flows are forecast for each business segment, defined as one or several brands or trade names under the responsibility of a dedicated management team. Smaller-scale cash-generating units, such as a group of stores, may be distinguished within a particular business segment.

The forecast data required for the cash flow method is based on annual budgets and multi-year business plans prepared by management of the related business segments. Detailed forecasts cover a five-year period, which may be extended in the case of certain brands undergoing strategic repositioning, or which have a production cycle exceeding five years. An estimated terminal value is added to the value resulting from discounted forecast cash flows, which corresponds to the capitalization in perpetuity of cash flows most often arising from the last year of the plan. Discount rates are set for each business group with reference to companies engaged in comparable businesses. Forecast cash flows are discounted on the basis of the rate of return to be expected by an investor in the applicable business and an assessment of the risk premium associated with that business. When several forecast scenarios are developed, the probability of occurrence of each scenario is assessed.

## 1.15. Available for sale financial assets

Financial assets are classified as current or non-current based on their nature.

Non-current available for sale financial assets comprise strategic and non-strategic investments whose estimated period and form of ownership justify such classification.

Current available for sale financial assets (presented in "Other current assets"; see Note 12) include temporary investments in shares, shares of SICAVs, FCPs and other mutual funds, excluding investments made as part of the daily cash management, which are accounted for as "Cash and cash equivalents" (see Note 1.18).

Available for sale financial assets are measured at their listed value at the fiscal year-end date in the case of quoted investments, and in the case of unquoted investments at their estimated net realizable value, assessed either according to formulas based on market data or based on private quotations at the fiscal year-end date.

Positive or negative changes in value are taken to equity within "Revaluation reserves". In the event of a lasting, significant impairment loss, an impairment is recognized and charged to net financial income/expense; the impairment is only reversed through the income statement at the time of sale of the underlying available for sale financial assets.

## 1.16. Inventories and work in progress

Inventories other than wine produced by the Group are recorded at the lower of cost (excluding interest expense) and net realizable value; cost comprises manufacturing cost (finished goods) or purchase price, plus incidental costs (raw materials, merchandise).

Wine produced by the Group, including champagne, is measured on the basis of the applicable harvest market value, which is determined by reference to the average purchase price of equivalent grapes, as if the grapes harvested had been purchased from third parties. Until the date of the harvest, the value of grapes is calculated *pro rata temporis* on the basis of the estimated yield and market value.

Inventories are valued using the weighted average cost or FIFO method, depending on the type of business.

Due to the length of the aging process required for champagne and spirits (cognac, whisky), the holding period for these inventories generally exceeds one year. However, in accordance with industry practices, these inventories are classified as current assets.

Provisions for impairment of inventories are chiefly recognized for businesses other than Wines and Spirits. They are generally required because of product obsolescence (end of season or collection, expiration date approaching, etc.) or lack of sales prospects.

## 1.17. Trade accounts receivable, loans and other receivables

Trade accounts receivable, loans and other receivables are recorded at their face value. A provision for impairment is recorded if their net realizable value, based on the probability of their collection, is less than their carrying amount.

The amount of long-term loans and receivables (i.e. those falling due in more than one year) is subject to discounting, the effects of which are recognized under net financial income/expense, using the effective interest rate method.

## 1.18. Cash and cash equivalents

Cash and cash equivalents comprise cash and highly liquid money-market investments subject to an insignificant risk of changes in value over time.

Money-market investments are measured at their market value, based on price quotations at the close of trading and on the exchange rate prevailing at the fiscal year-end date, with any changes in value recognized as part of net financial income/expense.

## 1.19. Provisions

A provision is recognized whenever an obligation exists towards a third party resulting in a probable disbursement for the Group, the amount of which may be reliably estimated. See also Notes 1.23 and 19.

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

## 1.20. Borrowings

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

In the case of hedging against fluctuations in the value of borrowings resulting from changes in interest rates, both the hedged amount of borrowings and the related hedging instruments are measured at their market value at the balance sheet date, with any changes in those values recognized within net financial income/expense. Market value of hedged borrowings is determined using similar methods to those described in Note 1.21 below.

In the case of hedging against fluctuations in future interest payments, the related borrowings remain measured at their amortized cost while any changes in value of the effective hedge portions are taken to equity as part of revaluation reserves.

Changes in value of non-hedging derivatives, and of the ineffective portions of hedges, are recognized within net financial income/expense.

Net financial debt comprises short- and long-term borrowings, the market value at the balance sheet date of interest rate derivatives, less the amount at the balance sheet date of non-current available for sale financial assets used to hedge financial debt, current available for sale financial assets, cash and cash equivalents, in addition to the market value at that date of foreign exchange derivatives related to any of the aforementioned items.

See also Note 1.21 regarding the definition of the concepts of effective and ineffective portions.

## 1.21. Derivatives

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

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

Derivatives are recognized in the balance sheet at their market value at the balance sheet date. Changes in their value are accounted for as described in Note 1.8 in the case of foreign exchange hedges, and as described in Note 1.20 in the case of interest rate hedges.

Market value is based on market data and commonly used valuation models.

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

## 1.22. Treasury shares and LVMH share-settled derivatives

LVMH shares and options to purchase LVMH shares that are held by the Group are measured at their acquisition cost and recognized as a deduction from consolidated equity, irrespective of the purpose for which they are held.

In the event of disposal, the cost of the shares disposed of is determined by allocation category (see Note 15.2) using the FIFO method with the exception of shares held under stock option plans for which the calculation is performed for each plan using the weighted average cost method. Gains and losses on disposal, net of income taxes, are taken directly to equity.

## 1.23. Pensions, contribution to medical costs and other employee benefit commitments

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

When retirement indemnity plans, pension plans, contribution to medical costs and other commitments are to be borne by the Group, a provision is recorded in the balance sheet in the amount of the corresponding actuarial commitment for the Group. Changes in this provision are recognized as follows:

- the portion related to the cost of services rendered by employees and net interest for the fiscal year is recognized in profit from recurring operations for the fiscal year;
- the portion related to changes in actuarial assumptions and to differences between projected and actual data (experience adjustments) is recognized in gains and losses taken to equity.

If this commitment is partially or wholly funded by payments made by the Group to external financial organizations, these dedicated funds are deducted from the actuarial commitment recorded in the balance sheet.

The actuarial commitment is calculated based on assessments that are specifically designed for the country and the Group company concerned. In particular, these assessments include assumptions regarding discount rates, salary increases, inflation, life expectancy and staff turnover.

## 1.24. Current and deferred tax

The tax expense comprises current tax payable by consolidated companies and deferred tax resulting from temporary differences.

Deferred tax is recognized in respect of temporary differences arising between the value of assets and liabilities for purposes of consolidation and the value resulting from application of tax regulations.

Deferred tax is measured on the basis of the income tax rates enacted at the balance sheet date; the effect of changes in rates is recognized during the periods in which changes are enacted.

Future tax savings from tax losses carried forward are recorded as deferred tax assets on the balance sheet which are impaired if they are deemed not recoverable; only amounts for which future use is deemed probable are recognized.

Deferred tax assets and liabilities are not discounted.

Taxes payable in respect of the distribution of retained earnings of subsidiaries give rise to provisions if distribution is deemed probable.

## 1.25. Revenue recognition

### Definition of revenue

Revenue mainly comprises retail sale within the Group's store network (including e-commerce websites) and sales through agents and distributors. Sales made in stores owned by third parties are treated as retail transactions if the risks and rewards of ownership of the inventories are retained by the Group.

Direct sales to customers are made through retail stores in Fashion and Leather Goods and Selective Retailing, as well as certain Watches and Jewelry and Perfumes and Cosmetics brands. These sales are recognized at the time of purchase by retail customers.

Wholesale sales essentially concern Wines and Spirits, as well as certain Perfumes and Cosmetics and Watches and Jewelry brands. The Group recognizes revenue when title transfers to third-party customers, generally upon shipment.

Revenue includes shipment and transportation costs re-billed to customers only when these costs are included in products' selling prices as a lump sum.

Revenue is presented net of all forms of discount. In particular, payments made in order to have products referenced or, in accordance with agreements, to participate in advertising campaigns with the distributors, are deducted from related revenue.

### Provisions for product returns

Perfumes and Cosmetics and, to a lesser extent, Fashion and Leather Goods and Watches and Jewelry companies may accept the return of unsold or outdated products from their customers and distributors.

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

### Businesses undertaken in partnership with Diageo

A significant proportion of revenue for the Group's Wines and Spirits businesses is generated within the framework of distribution agreements with Diageo generally taking the form of shared entities which sell and deliver both groups' products to customers; the income statement and balance sheet of these entities is apportioned between the Group and Diageo based on distribution agreements. According to those agreements, the assets, liabilities, income, and expenses of such entities are consolidated only in proportion to the Group's share of operations. The application of IFRS 11 as from January 1, 2014 has not had any impact on this method.

## 1.26. Advertising and promotion expenses

Advertising and promotion expenses include the costs of producing advertising media, purchasing media space, manufacturing samples and publishing catalogs, and in general, the cost of all activities designed to promote the Group's brands and products.

Advertising and promotion expenses are recorded within marketing and selling expenses upon receipt or production of goods or upon completion of services rendered.

## 1.27. Stock option and similar plans

Share purchase and subscription option plans give rise to the recognition of an expense based on the amortization of the expected gain for the recipients calculated according to the Black & Scholes method on the basis of the closing share price on the day before the board meeting at which the plan is instituted.

For bonus share plans, the expected gain is calculated on the basis of the closing share price on the day before the board meeting at which the plan is instituted, less the amount of dividends expected to accrue during the vesting period. A discount may be applied to the value of the bonus shares thus calculated to account for a period of non-transferability, where applicable.

For all plans, the amortization expense is apportioned on a straight-line basis in the income statement over the vesting period, with a corresponding impact on reserves in the balance sheet.

For cash-settled compensation plans index-linked to the change in LVMH share price, the gain over the vesting period is estimated at each balance sheet date based on the LVMH share price at that date, and is charged to the income statement on a pro rata basis over the vesting period, with a corresponding balance sheet impact on provisions. Between that date and the settlement date, the change in the expected gain resulting from the change in the LVMH share price is recorded in the income statement.

### 1.28. Earnings per share

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

Diluted earnings per share are calculated based on the weighted average number of shares before dilution and adding the weighted average number of shares that would result from the exercise of existing subscription options during the period or any other diluting instrument. It is assumed for the purposes of this calculation that the funds received from the exercise of options, plus the amount not yet expensed for stock option and similar plans (see Note 1.27), would be employed to repurchase LVMH shares at a price corresponding to their average trading price over the fiscal year.

## 2. CHANGES IN OWNERSHIP INTERESTS IN CONSOLIDATED ENTITIES

### 2.1. Fashion and Leather Goods

On December 1, 2016, pursuant to the agreement signed on July 22, 2016, LVMH sold Donna Karan International to G-III Apparel Group. The sale was made based on an enterprise value of 650 million US dollars, translating to a provisional sale price of 542 million US dollars after adjustments and deducting Donna Karan's borrowings with LVMH. LVMH granted G-III Apparel Group a vendor loan for 125 million US dollars (recorded under Other non-current assets; see Note 9) and received the equivalent of 75 million US dollars in G-III shares (recorded under Non-current available for sale financial assets; see Note 8). In addition, the 129 million US dollars in financing granted to Donna Karan by LVMH was repaid by G-III Apparel Group. The impact of the sale of Donna Karan International on the Group's net profit is a gain of 44 million euros.

In December 2016, following the exercise of the put option held by its partner, LVMH Métiers d'Arts acquired an additional 35% stake in the Heng Long tannery (Singapore), bringing its percentage holding to 100%. The difference between the acquisition price and minority interests was deducted from equity.

### 2.2. Selective Retailing

In November 2016, following the exercise of the put option held by its partner, Sephora acquired an additional 35% stake in Ile de Beauté (Russia), bringing its percentage holding to 100%. The difference between the acquisition price and minority interests was deducted from equity.

## 3. BRANDS AND OTHER INTANGIBLE ASSETS

| *(EUR millions)* | | | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| | Gross | Amortization and impairment | Net | Net | Net |
| Brands | 10,365 | (592) | 9,773 | 10,204 | 9,957 |
| Trade names | 4,157 | (1,717) | 2,440 | 2,370 | 2,155 |
| License rights | 95 | (79) | 16 | 18 | 19 |
| Leasehold rights | 690 | (352) | 338 | 334 | 344 |
| Software, websites | 1,423 | (1,061) | 362 | 319 | 278 |
| Other | 875 | (469) | 406 | 327 | 278 |
| **Total** | **17,605** | **(4,270)** | **13,335** | **13,572** | **13,031** |
| *Of which: assets held under finance leases* | *14* | *(14)* | - | - | - |

Movements during the fiscal year ended December 31, 2016 in the net amounts of brands, trade names and other intangible assets were as follows:

| **Gross value** *(EUR millions)* | **Brands** | **Trade names** | **Software, websites** | **Leasehold rights** | **Other intangible assets** | **Total** |
|---|---|---|---|---|---|---|
| **As of December 31, 2015** | **10,805** | **4,033** | **1,239** | **652** | **818** | **17,547** |
| Acquisitions | - | - | 136 | 47 | 257 | 440 |
| Disposals and retirements | - | - | (14) | (5) | (60) | (79) |
| Changes in the scope of consolidation | (430) | - | (10) | (7) | 14 | (433) |
| Translation adjustment | (10) | 124 | 14 | (2) | 7 | 133 |
| Reclassifications | - | - | 58 | 5 | (66) | (3) |
| **As of December 31, 2016** | **10,365** | **4,157** | **1,423** | **690** | **970** | **17,605** |

| **Accumulated amortization and impairment** *(EUR millions)* | **Brands** | **Trade names** | **Software, websites** | **Leasehold rights** | **Other intangible assets** | **Total** |
|---|---|---|---|---|---|---|
| **As of December 31, 2015** | **(601)** | **(1,663)** | **(920)** | **(318)** | **(473)** | **(3,975)** |
| Amortization expense | (23) | (1) | (155) | (39) | (130) | (348) |
| Impairment expense | (34) | - | - | (2) | - | (36) |
| Disposals and retirements | - | - | 13 | 4 | 60 | 77 |
| Changes in the scope of consolidation | 66 | - | 8 | 2 | - | 76 |
| Translation adjustment | - | (53) | (9) | 1 | (5) | (66) |
| Reclassifications | - | - | 2 | - | - | 2 |
| **As of December 31, 2016** | **(592)** | **(1,717)** | **(1,061)** | **(352)** | **(548)** | **(4,270)** |
| **Net carrying amount as of December 31, 2016** | **9,773** | **2,440** | **362** | **338** | **422** | **13,335** |

The impact of changes in the scope of consolidation in 2016 mainly arose from the sale of Donna Karan International. See Note 2.

# 4. GOODWILL

| *(EUR millions)* | | | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| | Gross | Impairment | Net | Net | Net |
| Goodwill arising on consolidated investments | 7,797 | (1,682) | 6,115 | 6,223 | 6,119 |
| Goodwill arising on purchase commitments for minority interests | 4,286 | - | 4,286 | 3,899 | 2,691 |
| **Total** | **12,083** | **(1,682)** | **10,401** | **10,122** | **8,810** |

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

| *(EUR millions)* | | | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| | Gross | Impairment | Net | Net | Net |
| **As of January 1** | **11,843** | **(1,721)** | **10,122** | **8,810** | **9,058** |
| Changes in the scope of consolidation (See Note 2) | (208) | 164 | (44) | 111 | 81 |
| Changes in purchase commitments for minority interests | 348 | - | 348 | 1,195 | (162) |
| Changes in impairment | - | (97) | (97) | (116) | (209) |
| Translation adjustment | 100 | (28) | 72 | 122 | 42 |
| **As of December 31** | **12,083** | **(1,682)** | **10,401** | **10,122** | **8,810** |

The impact of changes in the scope of consolidation in 2016 mainly arose from the sale of Donna Karan International. See Note 2.

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

## 5. IMPAIRMENT TESTING OF INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

Brands, trade names, and other intangible assets with indefinite useful lives were subject to impairment testing as of December 31, 2016, according to which no significant risk of impairment identified. See Note 25 regarding the impairment and amortization expense recorded during the fiscal year.

## 6. PROPERTY, PLANT AND EQUIPMENT

| *(EUR millions)* | | | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| | Gross | Depreciation and impairment | Net | Net | Net |
| Land | 1,384 | (79) | 1,305 | 1,236 | 1,104 |
| Vineyard land and producing vineyards | 2,580 | (106) | 2,474 | 2,441 | 2,364 |
| Buildings | 3,325 | (1,590) | 1,735 | 1,685 | 1,430 |
| Investment property | 908 | (53) | 855 | 562 | 632 |
| Leasehold improvements, machinery and equipment | 10,330 | (6,913) | 3,417 | 3,176 | 3,014 |
| Assets in progress | 958 | (8) | 950 | 755 | 684 |
| Other tangible fixed assets | 1,851 | (448) | 1,403 | 1,302 | 1,159 |
| **Total** | **21,336** | **(9,197)** | **12,139** | **11,157** | **10,387** |
| *Of which: assets held under finance leases* | *510* | *(203)* | *307* | *92* | *99* |
| *historical cost of vineyard land and producing vineyards* | *752* | *(106)* | *646* | *642* | *631* |

Movements in property, plant and equipment during the fiscal year break down as follows:

| Gross value (EUR millions) | Vineyard land and producing vineyards | Land and buildings | Investment property | Leasehold improvements, machinery and equipment | | | Assets in progress | Other tangible fixed assets | Total |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Stores | Production, logistics | Other | | | |
| **As of December 31, 2015** | **2,538** | **4,505** | **610** | **6,190** | **2,153** | **1,179** | **759** | **1,727** | **19,661** |
| Acquisitions | 3 | 214 | 285 | 574 | 93 | 56 | 768 | 157 | 2,150 |
| Change in the market value of vineyard land | 30 | - | - | - | - | - | - | - | 30 |
| Disposals and retirements | - | (67) | (1) | (352) | (72) | (49) | (1) | (37) | (579) |
| Changes in the scope of consolidation | - | 21 | - | (77) | (9) | (17) | - | (1) | (83) |
| Translation adjustment | 2 | (11) | 2 | 92 | (6) | 13 | 9 | 13 | 114 |
| Other movements, including transfers | 7 | 47 | 12 | 448 | 66 | 48 | (577) | (8) | 43 |
| **As of December 31, 2016** | **2,580** | **4,709** | **908** | **6,875** | **2,225** | **1,230** | **958** | **1,851** | **21,336** |

| Depreciation and impairment (EUR millions) | Vineyard land and producing vineyards | Land and buildings | Investment property | Leasehold improvements, machinery and equipment | | | Assets in progress | Other tangible fixed assets | Total |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Stores | Production, logistics | Other | | | |
| **As of December 31, 2015** | **(97)** | **(1,584)** | **(48)** | **(4,019)** | **(1,487)** | **(840)** | **(4)** | **(425)** | **(8,504)** |
| Depreciation expense | (6) | (155) | (6) | (772) | (134) | (125) | - | (76) | (1,274) |
| Impairment expense | (1) | (2) | - | 9 | (1) | - | (4) | (2) | (1) |
| Disposals and retirements | - | 66 | 1 | 351 | 68 | 48 | - | 39 | 573 |
| Changes in the scope of consolidation | - | 10 | - | 63 | 5 | 15 | - | 1 | 94 |
| Translation adjustment | (2) | (16) | - | (58) | 3 | (10) | - | (8) | (91) |
| Other movements, including transfers | - | 12 | - | (53) | 2 | 22 | - | 23 | 6 |
| **As of December 31, 2016** | **(106)** | **(1,669)** | **(53)** | **(4,479)** | **(1,544)** | **(890)** | **(8)** | **(448)** | **(9,197)** |
| **Net carrying amount as of December 31, 2016** | **2,474** | **3,040** | **855** | **2,396** | **681** | **340** | **950** | **1,403** | **12,139** |

Other tangible fixed assets include in particular the works of art owned by the Group.

Purchases of property, plant and equipment include investments by Sephora, Louis Vuitton, DFS, and Bvlgari in their retail networks, investments by the champagne houses and Hennessy in their production equipment, and investments in real estate for administrative use, sales operations or rental purposes.

The impact of marking vineyard land to market was 1,829 million euros as of December 31, 2016 (1,799 million euros as of December 31, 2015; 1,733 million euros as of December 31, 2014). See Notes 1.9 and 1.13 on the measurement method for vineyard land.

# 7. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

| *(EUR millions)* | | | | 2016 | | 2015 | | 2014 |
|---|---|---|---|---|---|---|---|---|
| | Gross | Impairment | Net | *Of which joint arrangements* | Net | *Of which joint arrangements* | Net | *Of which joint arrangements* |
| **Share of net assets of joint ventures and associates as of January 1** | **729** | **-** | **729** | ***353*** | **519** | ***351*** | **480** | ***328*** |
| Share of net profit (loss) for the period | 3 | - | 3 | *4* | (13) | *(4)* | (5) | *(15)* |
| Dividends paid | (21) | - | (21) | *(8)* | (14) | *(6)* | (21) | *(5)* |
| Changes in the scope of consolidation | 27 | - | 27 | *-* | 212 | *-* | 7 | *-* |
| Capital increases subscribed | 4 | - | 4 | *3* | 3 | *3* | 16 | *11* |
| Translation adjustment | 7 | - | 7 | *(1)* | 5 | *4* | 8 | *4* |
| Other movements, including transfers | 21 | - | 21 | *11* | 17 | *5* | 34 | *28* |
| **Share of net assets of joint ventures and associates as of December 31** | **770** | **-** | **770** | ***362*** | **729** | ***353*** | **519** | ***351*** |

As of December 31, 2016, investments in joint ventures and associates consisted primarily of:

- for joint arrangements:
  - a 50% stake in the Château Cheval Blanc wine estate (Gironde, France), which produces the eponymous Saint-Émilion Grand Cru Classé A;
  - a 50% stake in De Beers Diamond Jewellers, whose network of boutiques sells the De Beers brand of jewelry;
  - a 50% stake in Montres Dior, which designs and manufactures Dior watches.
- for other companies:
  - a 40% stake in Mongoual SA, the real estate company that owns the office building in Paris, France serving as the head office of LVMH Moët Hennessy - Louis Vuitton;
  - a 45% stake in PT. Sona Topas Tourism Industry Tbk (STTI), an Indonesian retail company, which notably holds duty-free sales licenses in airports;
  - a 46% stake in JW Anderson, a London-based ready-to-wear brand;
  - a 41.7% stake in Repossi, an Italian jewelry brand, acquired in November 2015;
  - a 40% stake in L Catterton Management, an investment fund management company created in December 2015 in partnership with Catterton.

# 8. NON-CURRENT AVAILABLE FOR SALE FINANCIAL ASSETS

| *(EUR millions)* | | | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| | Gross | Impairment | Net | Net | Net |
| **Total** | 993 | (249) | 744 | 574 | 580 |

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

| *(EUR millions)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| **As of January 1** | **574** | **580** | **7,080** |
| Acquisitions | 147 | 74 | 50 |
| Disposals at net realized value | (44) | (68) | (160) |
| Changes in market value | 2 | (3) | 455 |
| Distribution in kind of Hermès shares | - | - | (6,797) |
| Changes in impairment | (22) | (22) | (12) |
| Changes in the scope of consolidation | 67 | - | - |
| Translation adjustment | 20 | 31 | 33 |
| Reclassifications | - | (18) | (69) |
| **As of December 31** | **744** | **574** | **580** |

Acquisitions in fiscal year 2016 include the 120 million euro impact of non-current available for sale financial assets used to hedge cash-settled convertible bonds issued during the period (see Note 18.1). The impact of changes in the scope of consolidation corresponded to the stake in G-III Apparel Group received as partial payment of the selling price of Donna Karan International (see Note 2).

# 9. OTHER NON-CURRENT ASSETS

| *(EUR millions)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Warranty deposits | 295 | 273 | 236 |
| Derivatives [a] | 168 | 60 | 75 |
| Loans and receivables | 288 | 187 | 156 |
| Other | 26 | 32 | 22 |
| **Total** | **777** | **552** | **489** |

(a) See Note 22.

The increase in loans and receivables includes the vendor loan granted to G-III Apparel Group as part of the sale of Donna Karan International (see Note 2).

# 10. INVENTORIES AND WORK IN PROGRESS

| *(EUR millions)* | | | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| | Gross | Impairment | Net | Net | Net |
| Wines and *eaux-de-vie* in the process of aging | 4,292 | (11) | 4,281 | 4,213 | 4,002 |
| Other raw materials and work in progress | 1,591 | (366) | 1,225 | 1,135 | 1,273 |
| | 5,883 | (377) | 5,506 | 5,348 | 5,275 |
| Goods purchased for resale | 2,024 | (205) | 1,819 | 1,572 | 1,323 |
| Finished products | 4,060 | (839) | 3,221 | 3,176 | 2,877 |
| | 6,084 | (1,044) | 5,040 | 4,748 | 4,200 |
| **Total** | **11,967** | **(1,421)** | **10,546** | **10,096** | **9,475** |

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

| (EUR millions) | | | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| | Gross | Impairment | Net | Net | Net |
| **As of January 1** | **11,426** | **(1,330)** | **10,096** | **9,475** | **8,492** |
| Change in gross inventories | 819 | - | 819 | 569 | 928 |
| Effect of provision for returns [a] | (4) | - | (4) | (2) | 13 |
| Impact of marking harvests to market | (19) | - | (19) | (16) | (7) |
| Changes in impairment | - | (377) | (377) | (317) | (313) |
| Changes in the scope of consolidation | (63) | 1 | (62) | 6 | 10 |
| Translation adjustment | 106 | (13) | 93 | 381 | 347 |
| Other, including reclassifications | (298) | 298 | - | - | 5 |
| **As of December 31** | **11,967** | **(1,421)** | **10,546** | **10,096** | **9,475** |

(a) See Note 1.25.

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

| (EUR millions) | 2016 | 2015 | 2014 |
|---|---|---|---|
| Effect of marking the period's harvest to market | 13 | 18 | 24 |
| Effect of inventory sold during the period | (32) | (34) | (31) |
| **Net effect on cost of sales of the period** | **(19)** | **(16)** | **(7)** |
| **Net effect on the value of inventory as of December 31** | **131** | **150** | **166** |

See Notes 1.9 and 1.16 on the method of marking harvests to market.

## 11. TRADE ACCOUNTS RECEIVABLE

| (EUR millions) | 2016 | 2015 | 2014 |
|---|---|---|---|
| Trade accounts receivable, nominal amount | 2,979 | 2,820 | 2,546 |
| Provision for impairment | (66) | (64) | (66) |
| Provision for product returns [a] | (228) | (235) | (206) |
| **Net amount** | **2,685** | **2,521** | **2,274** |

(a) See Note 1.25.

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

| (EUR millions) | | | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| | Gross | Impairment | Net | Net | Net |
| **As of January 1** | **2,585** | **(64)** | **2,521** | **2,274** | **2,174** |
| Changes in gross receivables | 122 | - | 122 | 46 | 30 |
| Changes in provision for impairment | - | (1) | (1) | - | (5) |
| Changes in provision for product returns [a] | 5 | - | 5 | (20) | (25) |
| Changes in the scope of consolidation | (16) | - | (16) | 141 | 5 |
| Translation adjustment | 46 | - | 46 | 88 | 62 |
| Reclassifications | 9 | (1) | 8 | (8) | 33 |
| **As of December 31** | **2,751** | **(66)** | **2,685** | **2,521** | **2,274** |

(a) See Note 1.25.

The trade accounts receivable balance is comprised essentially of receivables from wholesalers or agents, who are limited in number and with whom the Group maintains ongoing relationships for the most part. As of December 31, 2016, coverage of customer credit risk had been requested from insurers for the majority of trade receivables, approximately 90% of the amount of which was granted, versus 88% as of December 31, 2015 and 90% as of December 31, 2014.

## 12. OTHER CURRENT ASSETS

| *(EUR millions)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Current available for sale financial assets [a] | 374 | 385 | 253 |
| Derivatives [b] | 261 | 297 | 304 |
| Tax accounts receivable, excluding income taxes | 620 | 602 | 449 |
| Advances and payments on account to vendors | 191 | 159 | 162 |
| Prepaid expenses | 379 | 357 | 313 |
| Other receivables | 518 | 555 | 435 |
| **Total** | **2,343** | **2,355** | **1,916** |

(a) See Note 13.
(b) See Note 22.

## 13. CURRENT AVAILABLE FOR SALE FINANCIAL ASSETS

| *(EUR millions)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Unlisted securities, shares in non-money market SICAVs and funds | - | - | - |
| Listed securities and term deposits | 374 | 385 | 253 |
| **Total** | **374** | **385** | **253** |
| *Of which: historical cost of current available for sale financial assets* | *351* | *393* | *180* |

The net value of current available for sale financial assets changed as follows during the periods presented:

| *(EUR millions)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| **As of January 1** | **385** | **253** | **171** |
| Acquisitions | 151 | 377 | - |
| Disposals at net realized value | (181) | (241) | (15) |
| Changes in market value | 19 | (29) | 39 |
| Changes in impairment | - | 7 | - |
| Changes in the scope of consolidation | - | - | - |
| Translation adjustment | - | - | - |
| Reclassifications | - | 18 | 58 |
| **As of December 31** | **374** | **385** | **253** |

The market value of current available for sale financial assets is determined using the methods described in Note 1.9. See also Note 1.15 for the method used to determine impairment losses on current available for sale financial assets.

# 14. CASH FLOW STATEMENT

## 14.1. Cash and cash equivalents

| (EUR millions) | 2016 | 2015 | 2014 |
|---|---|---|---|
| Term deposits (less than 3 months) | 520 | 808 | 1,270 |
| SICAV and FCP money market funds | 668 | 577 | 784 |
| Ordinary bank accounts | 2,356 | 2,209 | 2,037 |
| **Cash and cash equivalents per balance sheet** | **3,544** | **3,594** | **4,091** |

The reconciliation between cash and cash equivalents as shown in the balance sheet and net cash and cash equivalents appearing in the cash flow statement is as follows:

| (EUR millions) | 2016 | 2015 | 2014 |
|---|---|---|---|
| Cash and cash equivalents | 3,544 | 3,594 | 4,091 |
| Bank overdrafts | (207) | (204) | (308) |
| **Net cash and cash equivalents per cash flow statement** | **3,337** | **3,390** | **3,783** |

## 14.2. Change in working capital

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

| (EUR millions) | Notes | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Change in inventories and work in progress | 10 | (819) | (569) | (928) |
| Change in trade accounts receivable [a] | 11 | (113) | (49) | (22) |
| Change in trade accounts payable | 21 | 235 | 93 | 176 |
| Change in other receivables and payables | | 185 | 96 | 56 |
| **Change in working capital [b]** | | **(512)** | **(429)** | **(718)** |

(a) Including a positive effect of 9 million euros effect related to amounts owed to customers (versus a negative effect of 3 and 8 million euros as of December 31, 2015 and 2014, respectively).
(b) Increase/(Decrease) in cash and cash equivalents.

## 14.3. Operating investments

Operating investments comprise the following elements for the fiscal years presented:

| (EUR millions) | Notes | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Purchase of intangible fixed assets | 3 | (440) | (316) | (316) |
| Purchase of tangible fixed assets [a] | 6 | (2,150) | (1,739) | (1,532) |
| Deduction of purchase under finance lease | | 204 | - | - |
| Changes in accounts payable related to fixed asset purchases | | 125 | 81 | 78 |
| **Net cash used in purchases of fixed assets** | | **(2,261)** | **(1,974)** | **(1,770)** |
| Net cash from fixed asset disposals | | 6 | 41 | 45 |
| Guarantee deposits paid and other cash flows related to operating investments | | (10) | (22) | (50) |
| **Operating investments [b]** | | **(2,265)** | **(1,955)** | **(1,775)** |

(a) Including finance lease acquisitions.
(b) Increase/(Decrease) in cash and cash equivalents.

# 15. EQUITY

## 15.1. Share capital and share premium account

As of December 31, 2016, the share capital consisted of 507,126,088 fully paid-up shares (507,139,110 as of December 31, 2015 and 507,711,713 as of December 31, 2014), with a par value of 0.30 euros per share, including 229,432,106 shares with double voting rights (229,780,453 as of December 31, 2015 and 226,167,633 as of December 31, 2014). Double voting rights are attached to registered shares held for more than three years.

Changes in the share capital and share premium account, in value and in terms of number of shares, break down as follows:

| *(Number of shares or EUR millions)* | | | | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|
| | Number | | | Amount | Amount | Amount |
| | | Share capital | Share premium account | Total | | |
| **As of January 1** | **507,139,110** | **152** | **2,579** | **2,731** | **2,807** | **4,001** |
| Exercise of share subscription options | 907,929 | - | 64 | 64 | 35 | 59 |
| Distribution in kind of Hermès shares [a] | - | - | - | - | - | (1,203) |
| Retirement of shares | (920,951) | - | (42) | (42) | (111) | (50) |
| **As of December 31** | **507,126,088** | **152** | **2,601** | **2,753** | **2,731** | **2,807** |

(a) See Note 8 to the 2014 consolidated financial statements.

## 15.2. LVMH treasury shares

The portfolio of LVMH treasury shares is allocated as follows:

| *(Number of shares or EUR millions)* | | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| | Number | Amount | Amount | Amount |
| Share subscription option plans | 2,048,799 | 98 | 140 | 156 |
| Bonus share plans | 1,069,511 | 90 | 86 | 102 |
| Other plans | - | - | - | 8 |
| **Shares held for stock option and similar plans** [a] | **3,118,310** | **188** | **226** | **266** |
| Liquidity contract | 89,000 | 15 | 14 | 13 |
| Shares pending retirement | 1,889,812 | 317 | - | 95 |
| **LVMH treasury shares** | **5,097,122** | **520** | **240** | **374** |

(a) See Note 16 regarding stock option and similar plans.

"Other plans" correspond to future plans.

The market value of LVMH shares held under the liquidity contract as of December 31, 2016 amounts to 16 million euros.

The portfolio movements of LVMH treasury shares in fiscal year 2016 were as follows:

| *(Number of shares or EUR millions)* | Number | Amount | Effect on cash |
|---|---|---|---|
| **As of December 31, 2015** | **4,339,921** | **240** | |
| Share purchases [a] | 3,686,573 | 584 | (584) |
| Bonus shares definitively allocated | (465,660) | (34) | - |
| Retirement of shares | (920,951) | (42) | - |
| Proceeds from disposal at net realized value [a] | (1,542,761) | (232) | 232 |
| Gain/(loss) on disposal | - | 4 | - |
| **As of December 31, 2016** | **5,097,122** | **520** | **(352)** |

(a) Purchases and sales of LVMH shares mainly related to the management of the liquidity contract.

A share repurchase program totaling 300 million euros was set up in the fourth quarter of 2016, leading to the acquisition of 1,743,145 shares pending retirement.

## 15.3. Dividends paid by the parent company LVMH SE

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

As of December 31, 2016, the distributable amount was 14,078 million euros; after taking into account the proposed dividend distribution in respect of the 2016 fiscal year, it was 12,760 million euros.

| *(EUR millions, except for data per share in EUR)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Interim dividend for the current fiscal year (2016: 1.40 euros; 2015: 1.35 euros; 2014: 1.25 euros) | 710 | 685 | 634 |
| Distribution in kind of Hermès shares [a] | - | - | 6,855 |
| Impact of treasury shares | (6) | (6) | (7) |
| **Gross amount disbursed for the fiscal year** | **704** | **679** | **7,482** |
| Final dividend for the previous fiscal year (2015: 2.20 euros; 2014: 1.95 euros; 2013: 1.90 euros) | 1,115 | 998 | 965 |
| Impact of treasury shares | (9) | (18) | (13) |
| **Gross amount disbursed for the previous fiscal year** | **1,106** | **980** | **952** |
| **Total gross amount disbursed during the period** [b] | **1,810** | **1,659** | **8,434** |

(a) See Note 8 to the 2014 consolidated financial statements.
(b) Excluding the impact of tax regulations applicable to the recipient.

The final dividend for fiscal year 2016, as proposed at the Shareholders' Meeting of April 13, 2017, is 2.60 euros per share, representing a total of 1,319 million euros before deduction of the amount attributable to treasury shares held at the ex-dividend date.

## 15.4. Cumulative translation adjustment

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

| *(EUR millions)* | 2016 | Change | 2015 | 2014 |
|---|---|---|---|---|
| US dollar | 508 | 22 | 486 | 147 |
| Swiss franc | 762 | 29 | 733 | 450 |
| Japanese yen | 96 | 17 | 79 | 52 |
| Hong Kong dollar | 493 | 39 | 454 | 226 |
| Pound sterling | (85) | (121) | 36 | (6) |
| Other currencies | (94) | 39 | (133) | (79) |
| Foreign currency net investment hedges [a] | (515) | 3 | (518) | (298) |
| **Total, Group share** | **1,165** | **28** | **1,137** | **492** |

(a) Including -169 million euros with respect to the US dollar (-186 million euros as of December 31, 2015 and -98 million euros as of December 31, 2014), and -135 million euros with respect to the Hong Kong dollar (-130 million euros as of December 31, 2015 and -73 million euros as of December 31, 2014). These amounts include the tax impact.

# 16. STOCK OPTION AND SIMILAR PLANS

## 16.1. Share subscription option plans

The number of unexercised purchase options and the weighted average exercise price changed as follows during the fiscal years presented:

| | 2016 | | 2015 | | 2014 | |
|---|---|---|---|---|---|---|
| | Number | Weighted average exercise price (EUR) | Number | Weighted average exercise price (EUR) | Number | Weighted average exercise price (EUR) |
| **Share subscription options outstanding as of January 1** | **2,821,150** | **66.79** | **3,384,313** | **66.15** | **4,177,489** | **69.97** |
| Options expired | (10,211) | 68.07 | (11,026) | 55.46 | (152,815) | 58.42 |
| Adjustments made following the distribution in kind of Hermès shares [a] | - | - | - | - | 339,962 | (7.33) |
| Options exercised | (907,929) | 70.19 | (552,137) | 63.06 | (980,323) | 60.71 |
| **Share subscription options outstanding as of December 31** | **1,903,010** | **65.17** | **2,821,150** | **66.79** | **3,384,313** | **66.15** |

(a) See Note 8 to the 2014 consolidated financial statements.

## 16.2. Bonus share plans

The number of non-vested shares awarded changed as follows during the fiscal year:

| *(number of shares)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| **Non-vested shares as of January 1** | **1,456,068** | **1,492,627** | **1,484,118** |
| Shares initially awarded during the period | 360,519 | 388,794 | 368,548 |
| Adjustment made following the distribution in kind of Hermès shares [a] | - | - | 159,417 |
| Allocations vested during the period | (465,660) | (386,709) | (478,278) |
| Allocations expired during the period | (38,340) | (38,644) | (41,178) |
| **Non-vested shares as of December 31** | **1,312,587** | **1,456,068** | **1,492,627** |

(a) See Note 8 to the 2014 consolidated financial statements.

Vested share allocations were settled in existing shares held.

## 16.3. Expense for the fiscal year

| *(EUR millions)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Expense for the period for share subscription option plans and bonus share plans | 41 | 37 | 39 |

See Note 1.27 regarding the method used to determine the accounting expense.

The LVMH closing share price the day before the grant date of the plans was 167.35 euros for the plan dated October 20, 2016.

At the time of these grants, the unit value of non-vested bonus shares awarded as of October 20, 2016 was 155.10 euros.

# 17. MINORITY INTERESTS

| *(EUR millions)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| **As of January 1** | **1,460** | **1,240** | **1,028** |
| Minority interests' share of net profit | 382 | 428 | 457 |
| Dividends paid to minority interests | (272) | (229) | (328) |
| Effects of changes in control of consolidated entities | 22 | 1 | 11 |
| Effects of acquisition and disposal of minority interests' shares | (35) | (3) | 32 |
| Total effects of changes in the percentage interest in consolidated entities | (13) | (2) | 43 |
| Capital increases subscribed by minority interests | 41 | 89 | 3 |
| Minority interests' share in gains and losses recognized in equity | 52 | 130 | 108 |
| Minority interests' share in stock option plan expenses | 2 | 2 | 2 |
| Effects of changes in minority interests subject to purchase commitments | (142) | (198) | (73) |
| **As of December 31** | **1,510** | **1,460** | **1,240** |

The change in minority interests' share in gains and losses recognized in equity breaks down as follows:

| *(EUR millions)* | Cumulative translation adjustment | Hedges of future foreign currency cash flows | Vineyard land | Revaluation adjustments of employee benefits | Total share of minority interests |
|---|---|---|---|---|---|
| **As of December 31, 2013** | **(79)** | **15** | **216** | **(9)** | **143** |
| Changes for the fiscal year | 138 | (14) | (3) | (13) | 108 |
| **As of December 31, 2014** | **59** | **1** | **213** | **(22)** | **251** |
| Changes for the fiscal year | 121 | (2) | 10 | 1 | 130 |
| **As of December 31, 2015** | **180** | **(1)** | **223** | **(21)** | **381** |
| Changes for the fiscal year | 40 | 1 | 25 | (14) | 52 |
| **As of December 31, 2016** | **220** | **-** | **248** | **(35)** | **433** |

Minority interests are composed primarily of Diageo's 34% stake in Moët Hennessy and the 39% stake held by Robert Miller in DFS, which is part of the Selective Retailing business group. Diageo's stake in Moët Hennessy may be assessed using the revenue, operating profit and core assets of the Wines and Spirits business group, which are presented in Note 23. Since the 34% stake held by Diageo in Moët Hennessy is subject to a purchase commitment, it is reclassified at year-end under Other non-current liabilities and is therefore excluded from the total amount of minority interests at the fiscal year-end date. See Notes 1.12 and 20.

# 18. BORROWINGS

## 18.1. Net financial debt

| (EUR millions) | 2016 | 2015 | 2014 |
|---|---|---|---|
| Bonds and Euro Medium Term Notes (EMTN) | 3,476 | 4,202 | 4,794 |
| Bank borrowings and finance lease | 456 | 309 | 260 |
| **Long term borrowings** | **3,932** | **4,511** | **5,054** |
| Bonds and Euro Medium Term Notes (EMTN) | 1,377 | 710 | 925 |
| Commercial paper | 1,204 | 2,281 | 2,004 |
| Bank overdrafts | 207 | 205 | 308 |
| Other short term borrowings | 659 | 573 | 952 |
| **Short term borrowings** | **3,447** | **3,769** | **4,189** |
| **Gross amount of borrowings** | **7,379** | **8,280** | **9,243** |
| Interest rate risk derivatives | (65) | (66) | (94) |
| **Gross borrowings after derivatives** | **7,314** | **8,214** | **9,149** |
| Current available for sale financial assets [a] | (374) | (385) | (253) |
| Non-current available for sale financial assets used to hedge financial debt [b] | (131) | - | - |
| Cash and cash equivalents [c] | (3,544) | (3,594) | (4,091) |
| **Net financial debt** | **3,265** | **4,235** | **4,805** |

(a) See Note 13.
(b) See Note 8.
(c) See Note 14.1.

In 2016, LVMH issued exclusively cash-settled five-year convertible bonds with a total face value of 600 million US dollars issued in February 2016 and supplemented by a 150 million US dollar tap issue carried out in April 2016. These bonds, which were issued at 103.00% and 104.27% of their face value respectively, are redeemable at par (if they are not converted) and do not bear interest.

In addition to these issues, LVMH subscribed to financial instruments with the same maturity, enabling it to fully hedge its exposure to any positive or negative changes in the share price. This set of transactions, involving euro-denominated swaps, provides the Group with the equivalent of traditional euro-denominated bond financing at an advantageous cost.

As provided by applicable accounting policies, the optional components of convertible bonds and financial instruments subscribed for hedging purposes are recorded under "Derivatives" (see Note 22), with hedging instruments other than these optional components recorded under "Non-current available for sale financial assets" (see Note 8). Given their connection to the bonds issued, hedging instruments (except option components) are presented as deducted from gross financial debt in calculating net financial debt, and their impact on cash and cash equivalents is presented under "Financing activities" in the cash flow statement.

In 2016, LVMH redeemed a 650 million euro bond issued in 2013 and 2014.

Net financial debt does not take into consideration purchase commitments for minority interests' shares, which are classified as "Other non-current liabilities" (see Note 20).

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

| (EUR millions) | | Gross borrowings | | | Effects of derivatives | | | Gross borrowings after derivatives | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Fixed rate | Floating rate | Total | Fixed rate | Floating rate | Total | Fixed rate | Floating rate | Total |
| Maturity: | as of December 31, 2017 | 3,180 | 267 | 3,447 | (1,365) | 1,350 | (15) | 1,815 | 1,617 | 3,432 |
| | as of December 31, 2018 | 591 | 13 | 604 | - | (4) | (4) | 591 | 9 | 600 |
| | as of December 31, 2019 | 737 | 300 | 1,037 | (353) | 342 | (11) | 384 | 642 | 1,026 |
| | as of December 31, 2020 | 617 | - | 617 | (401) | 390 | (11) | 216 | 390 | 606 |
| | as of December 31, 2021 | 1,361 | - | 1,361 | (650) | 626 | (24) | 711 | 626 | 1,337 |
| | as of December 31, 2022 | 11 | - | 11 | - | - | - | 11 | - | 11 |
| | Thereafter | 294 | 8 | 302 | - | - | - | 294 | 8 | 302 |
| **Total** | | **6,791** | **588** | **7,379** | **(2,769)** | **2,704** | **(65)** | **4,022** | **3,292** | **7,314** |

See Note 22.3 for the market value of interest rate risk derivatives.

The breakdown by quarter of gross borrowings falling due in 2017 is as follows:

| (EUR millions) | Falling due in 2017 |
|---|---|
| First quarter | 1,820 |
| Second quarter | 1,071 |
| Third quarter | 543 |
| Fourth quarter | 13 |
| **Total** | **3,447** |

## 18.3. Analysis of gross borrowings by currency after derivatives

| (EUR millions) | 2016 | 2015 | 2014 |
|---|---|---|---|
| Euro | 5,491 | 6,302 | 7,033 |
| US dollar | 634 | 366 | 226 |
| Swiss franc | 639 | 909 | 995 |
| Japanese yen | 281 | 228 | 229 |
| Other currencies | 269 | 409 | 666 |
| **Total** | **7,314** | **8,214** | **9,149** |

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

# 19. PROVISIONS

| (EUR millions) | 2016 | 2015 | 2014 |
|---|---|---|---|
| Provisions for pensions, medical costs and similar commitments | 698 | 632 | 640 |
| Provisions for contingencies and losses | 1,626 | 1,297 | 1,618 |
| Provisions for reorganization | 18 | 21 | 33 |
| **Non-current provisions** | **2,342** | **1,950** | **2,291** |
| Provisions for pensions, medical costs and similar commitments | 4 | 4 | 3 |
| Provisions for contingencies and losses | 319 | 353 | 314 |
| Provisions for reorganization | 29 | 64 | 15 |
| **Current provisions** | **352** | **421** | **332** |
| **Total** | **2,694** | **2,371** | **2,623** |

In fiscal year 2016, the changes in provisions were as follows:

| (EUR millions) | Dec. 31, 2015 | Increases | Amounts used | Amounts released | Changes in the scope of consolidation | Other items[a] | Dec. 31, 2016 |
|---|---|---|---|---|---|---|---|
| Provisions for pensions, medical costs and similar commitments | 636 | 112 | (122) | (2) | (1) | 79 | 702 |
| Provisions for contingencies and losses | 1,650 | 601 | (227) | (137) | (9) | 67 | 1,945 |
| Provisions for reorganization | 85 | 38 | (65) | (5) | (3) | (3) | 47 |
| **Total** | **2,371** | **751** | **(414)** | **(144)** | **(13)** | **143** | **2,694** |
| *Of which: profit from recurring operations* | | *434* | *(279)* | *(58)* | | | |
| *net financial income (expense)* | | *2* | *-* | *(56)* | | | |
| *other* | | *315* | *(135)* | *(30)* | | | |

(a) Including the effect of translation adjustment and change in revaluation reserves.

Provisions for contingencies and losses correspond to the estimate of the impact on assets and liabilities of risks, disputes (see Note 31), or actual or probable litigation arising from the Group's activities; such activities are carried out worldwide, within what is often an imprecise regulatory framework that is different for each country, changes over time and applies to areas ranging from product composition and packaging to the tax computation and relations with the Group's partners (such as distributors, suppliers, shareholders in subsidiaries…).

In particular, the Group's entities in France and abroad may be subject to tax inspections and, in certain cases, to rectification claims from local administrations. These rectification claims, together with any uncertain tax positions that have been identified but not yet officially verified, give rise to appropriate provisions, the amount of which is regularly reviewed in accordance with the criteria of IAS 37 Provisions and IAS 12 Income Taxes.

Given the uncertain duration of tax measures favorable to the Group's businesses considered by several countries in which the Group has a significant presence, a provision has been established representing a significant proportion of the increases in provisions for fiscal year 2016.

# 20. OTHER NON-CURRENT LIABILITIES

| (EUR millions) | 2016 | 2015 | 2014 |
|---|---|---|---|
| Purchase commitments for minority interests | 7,877 | 7,421 | 6,008 |
| Derivatives[a] | 134 | 2 | 16 |
| Employee profit sharing | 91 | 93 | 88 |
| Other liabilities | 396 | 441 | 335 |
| **Total** | **8,498** | **7,957** | **6,447** |

(a) See Note 22.

As of December 31, 2016, purchase commitments for minority interests' shares mainly include the put option granted by LVMH to Diageo plc for its 34% share in Moët Hennessy, with six months' advance notice and for 80% of the fair value of Moët Hennessy at the exercise date of the commitment. With regard to this commitment's valuation, the fair value was determined by applying the share price multiples of comparable firms to Moët Hennessy's consolidated operating results.

Moët Hennessy SNC and Moët Hennessy International SAS ("Moët Hennessy") are the holding companies for LVMH's Wines and Spirits businesses, with the exception of the equity investments in Château d'Yquem, Château Cheval Blanc, Clos des Lambrays and certain champagne vineyards.

Purchase commitments for minority interests' shares also include commitments relating to minority shareholders in Loro Piana (20%) and distribution subsidiaries in various countries, mainly in the Middle East. Put options granted to minority interests in Ile de Beauté (35%) and Heng Long (35%) were exercised in 2016. See Note 2.

# 21. TRADE ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

## 21.1. Trade accounts payable

The change in trade accounts payable for the fiscal years presented breaks down as follows:

| *(EUR millions)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| **As of January 1** | **3,960** | **3,606** | **3,297** |
| Changes in trade accounts payable | 235 | 93 | 176 |
| Changes in amounts owed to customers | 9 | (3) | 8 |
| Changes in the scope of consolidation | (36) | 129 | 5 |
| Translation adjustment | 46 | 133 | 109 |
| Reclassifications | (30) | 2 | 11 |
| **As of December 31** | **4,184** | **3,960** | **3,606** |

## 21.2. Other current liabilities

| *(EUR millions)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Derivatives [a] | 207 | 185 | 274 |
| Employees and social institutions | 1,329 | 1,260 | 1,110 |
| Employee profit sharing | 103 | 98 | 74 |
| Taxes other than income taxes | 574 | 553 | 458 |
| Advances and payments on account from customers | 237 | 205 | 184 |
| Deferred payment for tangible and financial non-current assets | 590 | 504 | 433 |
| Deferred income | 251 | 208 | 190 |
| Other liabilities | 1,108 | 896 | 776 |
| **Total** | **4,399** | **3,909** | **3,499** |

(a) See Note 22.

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

# 22. FINANCIAL INSTRUMENTS AND MARKET RISK MANAGEMENT

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

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

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

The Group has implemented a stringent policy and rigorous management guidelines to manage, measure and monitor these market risks.

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

The backbone of this organization is an integrated information system which allows hedging transactions to be monitored quickly.

The Group's hedging strategy is presented to the Audit Committee. Hedging decisions are made according to an established process that includes regular presentations to the Group's Executive Committee and detailed documentation.

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

## 22.2. Summary of derivatives

Derivatives are recorded in the balance sheet for the amounts and in the captions detailed as follows:

| *(EUR millions)* | | | Notes | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|
| **Interest rate risk** | Assets: | non-current | | 53 | 57 | 61 |
| | | current | | 17 | 14 | 42 |
| | Liabilities: | non-current | | - | - | (3) |
| | | current | | (5) | (5) | (6) |
| | | | 22.3 | **65** | **66** | **94** |
| **Foreign exchange risk** | Assets: | non-current | | 46 | 3 | 14 |
| | | current | | 244 | 283 | 217 |
| | Liabilities: | non-current | | (65) | (2) | (13) |
| | | current | | (199) | (178) | (268) |
| | | | 22.4 | **26** | **106** | **(50)** |
| **Other risks** | Assets: | non-current | | 69 | - | - |
| | | current | | - | - | 45 |
| | Liabilities: | non-current | | (69) | - | - |
| | | current | | (3) | (2) | - |
| | | | | **(3)** | **(2)** | **45** |
| **Total** | Assets: | non-current | 9 | 168 | 60 | 75 |
| | | current | 12 | 261 | 297 | 304 |
| | Liabilities: | non-current | 20 | (134) | (2) | (16) |
| | | current | 21 | (207) | (185) | (274) |
| | | | | **88** | **170** | **89** |

## 22.3. Derivatives used to manage interest rate risk

The aim of the Group's debt management policy is to adapt the debt maturity profile to the characteristics of the assets held, to contain borrowing costs, and to protect net profit from the effects of significant changes in interest rates.

For these purposes, the Group uses interest rate swaps and options.

Derivatives used to manage interest rate risk outstanding as of December 31, 2016 break down as follows:

| *(EUR millions)* | Nominal amounts by maturity | | | | Market value [a] [b] | | |
|---|---|---|---|---|---|---|---|
| | Less than one year | One to five years | More than five years | Total | Fair value hedges | Not allocated | Total |
| Interest rate swaps in euros, floating rate payer | 1,365 | 1,403 | - | 2,768 | 66 | - | 66 |
| Foreign currency swaps | 1,158 | 122 | - | 1,280 | (1) | - | (1) |
| Other interest rate risk derivatives | 75 | 190 | - | 265 | - | - | - |
| **Total** | | | | | **65** | **-** | **65** |

(a) Gain/(Loss).
(b) See Note 1.9 regarding the methodology used for market value measurement.

## 22.4. Derivatives used to manage foreign exchange risk

A significant part of Group companies' sales to customers and to their own retail subsidiaries as well as certain purchases are denominated in currencies other than their functional currency; the majority of these foreign currency-denominated cash flows are intercompany cash flows. Hedging instruments are used to reduce the risks arising from the fluctuations of currencies against the exporting and importing companies' functional currencies and are allocated to either accounts receivable or accounts payable (fair value hedges) for the fiscal year, or to transactions anticipated for future periods (cash flow hedges).

Future foreign currency-denominated cash flows are broken down as part of the budget preparation process and are hedged progressively over a period not exceeding one year unless a longer period is justified by probable commitments. As such, and according to market trends, identified foreign exchange risks are hedged using forward contracts or options.

The Group may also use appropriate financial instruments to hedge the net worth of subsidiaries outside the eurozone, in order to limit the impact of foreign currency fluctuations against the euro on consolidated equity.

Derivatives used to manage foreign exchange risk outstanding as of December 31, 2016 break down as follows:

| *(EUR millions)* | Nominal amounts by fiscal year of allocation [a] | | | | Market value [b][c] | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | Beyond | Total | Fair value hedges | Future cash flow hedges | Foreign currency net investment hedges | Not allocated | Total |
| **Options purchased** | | | | | | | | | |
| Put USD | 72 | 44 | - | 116 | - | 1 | - | - | 1 |
| Put HKD | 39 | - | - | 39 | - | - | - | - | - |
| Put GBP | 15 | 4 | - | 19 | 1 | - | - | - | 1 |
| Other | 41 | - | - | 41 | - | - | - | - | - |
| | **167** | **48** | **-** | **215** | **1** | **1** | **-** | **-** | **2** |
| **Collars** | | | | | | | | | |
| Written USD | 143 | 4,590 | 707 | 5,440 | (1) | (38) | - | (1) | (40) |
| Written JPY | 12 | 896 | 55 | 963 | - | 41 | - | - | 41 |
| Written GBP | 12 | 168 | - | 180 | 2 | 2 | - | 1 | 5 |
| | **167** | **5,654** | **762** | **6,583** | **1** | **5** | **-** | **-** | **6** |
| **Forward exchange contracts** | | | | | | | | | |
| USD | 215 | (2) | - | 213 | (6) | - | 9 | - | 3 |
| JPY | 47 | - | - | 47 | - | - | - | - | - |
| CHF | 25 | - | - | 25 | - | - | - | - | - |
| Other | 211 | 86 | - | 297 | (2) | - | - | (1) | (3) |
| | **498** | **84** | **-** | **582** | **(8)** | **-** | **9** | **(1)** | **-** |
| **Foreign exchange swaps** | | | | | | | | | |
| USD | 2,295 | - | - | 2,295 | 70 | - | (30) | 22 | 62 |
| CHF | 280 | - | - | 280 | (2) | - | (5) | - | (7) |
| GBP | 216 | - | - | 216 | (24) | - | - | - | (24) |
| JPY | 387 | - | - | 387 | 7 | - | - | - | 7 |
| CNY | 294 | 23 | 30 | 347 | (2) | - | - | - | (2) |
| Other | 305 | (4) | - | 301 | (9) | - | (9) | - | (18) |
| | **3,777** | **19** | **30** | **3,826** | **40** | **-** | **(44)** | **22** | **18** |
| **Total** | | | | | **34** | **6** | **(35)** | **21** | **26** |

(a) Sale/(Purchase).
(b) Gain/(Loss).
(c) See Note 1.9 regarding the methodology used for market value measurement.

## 22.5. Financial instruments used to manage other risks

The Group's investment policy is designed to take advantage of a long-term investment horizon. Occasionally, the Group may invest in equity-based financial instruments with the aim of enhancing the dynamic management of its investment portfolio.

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

The Group may also use equity-based derivatives to synthetically create an economic exposure to certain assets, to hedge cash-settled compensation plans index-linked to the LVMH share price, or to hedge certain risks related to changes in the LVMH share price. If applicable, the carrying amount of these unlisted financial instruments corresponds to the estimate of the amount, provided by the counterparty, of the valuation at the balance sheet date. Financial instruments are valued according to commonly used valuation models and based on market data such as interest rates and share prices.

The Group – mainly through its Watches and Jewelry business group – may be exposed to changes in the prices of certain precious metals, such as gold. In certain cases, in order to ensure visibility with regard to production costs, hedges may be implemented. This is achieved either by negotiating the forecast price of future deliveries of alloys with precious metal refiners, or the price of semi-finished products with producers, or directly by purchasing hedges from top-ranking banks. In the latter case, gold may be purchased from banks, or future and/or options contracts may be taken out with a physical delivery of the gold. Derivatives outstanding relating to the hedging of precious metal prices as of December 31, 2016 have a negative market value of 3 million euros. Considering nominal values of 121 million euros for those derivatives, a uniform 1% change in their underlying assets' prices as of December 31, 2016 would have a net impact on the Group's consolidated reserves of less than 1 million euros. These instruments mature primarily in 2017.

# 23. SEGMENT INFORMATION

The Group's brands and trade names are organized into six business groups. Four business groups – Wines and Spirits, Fashion and Leather Goods, Perfumes and Cosmetics and Watches and Jewelry – comprise brands dealing with the same category of products that use similar production and distribution processes. Information on Louis Vuitton and Bvlgari is presented according to the brand's main business, namely the Fashion and Leather Goods business group for Louis Vuitton and the Watches and Jewelry business group for Bvlgari. The Selective Retailing business group comprises the Group's own-label retailing activities. Other activities and holding companies comprise brands and businesses that are not associated with any of the above-mentioned business groups, particularly the media division, the Dutch luxury yacht maker Royal Van Lent, hotel operations and holding or real estate companies.

## 23.1. Information by business group

### Fiscal year 2016

| *(EUR millions)* | Wines and Spirits | Fashion and Leather Goods | Perfumes and Cosmetics | Watches and Jewelry | Selective Retailing | Other and holding companies | Eliminations and not allocated [a] | Total |
|---|---|---|---|---|---|---|---|---|
| Sales outside the Group | 4,805 | 12,735 | 4,083 | 3,409 | 11,945 | 623 | - | 37,600 |
| Intra-Group sales | 30 | 40 | 870 | 59 | 28 | 15 | (1,042) | - |
| **Total revenue** | **4,835** | **12,775** | **4,953** | **3,468** | **11,973** | **638** | **(1,042)** | **37,600** |
| Profit from recurring operations | 1,504 | 3,873 | 551 | 458 | 919 | (244) | (35) | 7,026 |
| Other operating income and expenses | (60) | 10 | (9) | (30) | (64) | 31 | - | (122) |
| Depreciation and amortization expense | (148) | (601) | (212) | (208) | (399) | (54) | - | (1,622) |
| Impairment expense | (4) | (34) | (1) | (32) | (62) | (1) | - | (134) |
| Intangible assets and goodwill [b] | 5,185 | 6,621 | 1,305 | 5,879 | 3,692 | 1,054 | - | 23,736 |
| Property, plant and equipment | 2,613 | 2,143 | 585 | 529 | 1,777 | 4,499 | (7) | 12,139 |
| Inventories | 4,920 | 1,501 | 581 | 1,403 | 2,172 | 235 | (266) | 10,546 |
| Other operating assets | 1,419 | 974 | 948 | 720 | 908 | 980 | 7,252 [c] | 13,201 |
| **Total assets** | **14,137** | **11,239** | **3,419** | **8,531** | **8,549** | **6,768** | **6,979** | **59,622** |
| Equity | - | - | - | - | - | - | 27,903 | 27,903 |
| Liabilities | 1,524 | 2,641 | 1,593 | 918 | 2,924 | 1,178 | 20,941 [d] | 31,719 |
| **Total liabilities and equity** | **1,524** | **2,641** | **1,593** | **918** | **2,924** | **1,178** | **48,844** | **59,622** |
| Operating investments [e] | (276) | (506) | (268) | (229) | (558) | (434) | 6 | (2,265) |

### Fiscal year 2015

| *(EUR millions)* | Wines and Spirits | Fashion and Leather Goods | Perfumes and Cosmetics | Watches and Jewelry | Selective Retailing | Other and holding companies | Eliminations and not allocated [a] | Total |
|---|---|---|---|---|---|---|---|---|
| Sales outside the Group | 4,575 | 12,333 | 3,907 | 3,250 | 11,166 | 433 | - | 35,664 |
| Intra-Group sales | 28 | 36 | 764 | 58 | 27 | 15 | (928) | - |
| **Total revenue** | **4,603** | **12,369** | **4,671** | **3,308** | **11,193** | **448** | **(928)** | **35,664** |
| Profit from recurring operations | 1,363 | 3,505 | 524 | 432 | 940 | (154) | (5) | 6,605 |
| Other operating income and expenses | (15) | (154) | (4) | (31) | (7) | (10) | - | (221) |
| Depreciation and amortization expense | (132) | (641) | (184) | (199) | (365) | (42) | - | (1,563) |
| Impairment expense | (15) | (96) | (1) | - | (5) | (19) | - | (136) |
| Intangible assets and goodwill [b] | 4,900 | 7,207 | 1,283 | 5,850 | 3,508 | 946 | - | 23,694 |
| Property, plant and equipment | 2,484 | 2,125 | 528 | 501 | 1,547 | 3,972 | - | 11,157 |
| Inventories | 4,795 | 1,566 | 502 | 1,361 | 1,873 | 230 | (231) | 10,096 |
| Other operating assets | 1,392 | 874 | 812 | 731 | 755 | 920 | 7,170 [c] | 12,654 |
| **Total assets** | **13,571** | **11,772** | **3,125** | **8,443** | **7,683** | **6,068** | **6,939** | **57,601** |
| Equity | - | - | - | - | - | - | 25,799 | 25,799 |
| Liabilities | 1,426 | 2,451 | 1,440 | 922 | 2,408 | 1,131 | 22,024 [d] | 31,802 |
| **Total liabilities and equity** | **1,426** | **2,451** | **1,440** | **922** | **2,408** | **1,131** | **47,823** | **57,601** |
| Operating investments [e] | (233) | (553) | (233) | (204) | (395) | (337) | - | (1,955) |

### Fiscal year 2014

| *(EUR millions)* | Wines and Spirits | Fashion and Leather Goods | Perfumes and Cosmetics | Watches and Jewelry | Selective Retailing | Other and holding companies | Eliminations and not allocated [a] | Total |
|---|---|---|---|---|---|---|---|---|
| Sales outside the Group | 3,945 | 10,796 | 3,384 | 2,720 | 9,495 | 298 | - | 30,638 |
| Intra-Group sales | 28 | 32 | 622 | 62 | 25 | 14 | (783) | - |
| **Total revenue** | **3,973** | **10,828** | **4,006** | **2,782** | **9,520** | **312** | **(783)** | **30,638** |
| Profit from recurring operations | 1,147 | 3,189 | 413 | 283 | 884 | (162) | (39) | 5,715 |
| Other operating income and expenses | (34) | (110) | (14) | 1 | (74) | (53) | - | (284) |
| Depreciation and amortization expense | (119) | (555) | (149) | (171) | (296) | (41) | - | (1,331) |
| Impairment expense | (22) | (71) | (9) | (1) | (85) | (34) | - | (222) |
| Intangible assets and goodwill [b] | 3,758 | 7,242 | 1,203 | 5,635 | 3,141 | 862 | - | 21,841 |
| Property, plant and equipment | 2,339 | 2,165 | 478 | 425 | 1,414 | 3,566 | - | 10,387 |
| Inventories | 4,567 | 1,561 | 432 | 1,244 | 1,647 | 239 | (215) | 9,475 |
| Other operating assets | 1,340 | 781 | 693 | 635 | 663 | 608 | 6,939 [c] | 11,659 |
| **Total assets** | **12,004** | **11,749** | **2,806** | **7,939** | **6,865** | **5,275** | **6,724** | **53,362** |
| Equity | - | - | - | - | - | - | 23,003 | 23,003 |
| Liabilities | 1,461 | 2,265 | 1,348 | 743 | 2,054 | 932 | 21,556 [d] | 30,359 |
| **Total liabilities and equity** | **1,461** | **2,265** | **1,348** | **743** | **2,054** | **932** | **44,559** | **53,362** |
| Operating investments [e] | (152) | (585) | (223) | (191) | (387) | (237) | - | (1,775) |

(a) Eliminations correspond to sales between business groups; these generally consist of sales to Selective Retailing from other business groups. Selling prices between the different business groups correspond to the prices applied in the normal course of business for sales transactions to wholesalers or distributors outside the Group.
(b) Intangible assets and goodwill correspond to the carrying amounts shown under Notes 3 and 4.
(c) Assets not allocated include available for sale financial assets, other financial assets, and both current and deferred tax assets.
(d) Liabilities not allocated include financial debt and both current and deferred tax liabilities.
(e) Increase/(Decrease) in cash and cash equivalents.

As of 2016, Kendo's activities, which were previously presented under the Selective Retailing business group, are now presented under Perfumes and Cosmetics. Comparative data has been restated to reflect this change, the impact of which is not significant.

## 23.2. Information by geographic region

Revenue by geographic region of delivery breaks down as follows:

| (EUR millions) | 2016 | 2015 | 2014 |
|---|---|---|---|
| France | 3,745 | 3,552 | 3,212 |
| Europe (excluding France) | 6,825 | 6,408 | 5,830 |
| United States | 10,004 | 9,345 | 7,262 |
| Japan | 2,696 | 2,487 | 2,107 |
| Asia (excluding Japan) | 9,922 | 9,636 | 8,740 |
| Other | 4,408 | 4,236 | 3,487 |
| **Revenue** | **37,600** | **35,664** | **30,638** |

Operating investments by geographic region are as follows:

| (EUR millions) | 2016 | 2015 | 2014 |
|---|---|---|---|
| France | 807 | 633 | 651 |
| Europe (excluding France) | 375 | 385 | 326 |
| United States | 491 | 336 | 255 |
| Japan | 65 | 66 | 50 |
| Asia (excluding Japan) | 314 | 411 | 387 |
| Other | 213 | 124 | 106 |
| **Operating investments** | **2,265** | **1,955** | **1,775** |

No geographic breakdown of segment assets is provided since a significant portion of these assets consists of brands and goodwill, which must be analyzed on the basis of the revenue generated by these assets in each region, and not in relation to the region of their legal ownership.

## 23.3. Quarterly information

Quarterly sales by business group break down as follows:

| (EUR millions) | Wines and Spirits | Fashion and Leather Goods | Perfumes and Cosmetics | Watches and Jewelry | Selective Retailing | Other and holding companies | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|
| First quarter | 1,033 | 2,965 | 1,213 | 774 | 2,747 | 154 | (266) | 8,620 |
| Second quarter | 1,023 | 2,920 | 1,124 | 835 | 2,733 | 161 | (228) | 8,568 |
| Third quarter | 1,225 | 3,106 | 1,241 | 877 | 2,803 | 145 | (259) | 9,138 |
| Fourth quarter | 1,554 | 3,784 | 1,375 | 982 | 3,690 | 178 | (289) | 11,274 |
| **Total 2016** | **4,835** | **12,775** | **4,953** | **3,468** | **11,973** | **638** | **(1,042)** | **37,600** |
| First quarter | 992 | 2,975 | 1,129 | 723 | 2,648 | 90 | (234) | 8,323 |
| Second quarter | 938 | 2,958 | 1,099 | 829 | 2,627 | 153 | (220) | 8,384 |
| Third quarter | 1,199 | 2,939 | 1,143 | 852 | 2,603 | 83 | (238) | 8,581 |
| Fourth quarter | 1,474 | 3,497 | 1,300 | 904 | 3,315 | 122 | (236) | 10,376 |
| **Total 2015** | **4,603** | **12,369** | **4,671** | **3,308** | **11,193** | **448** | **(928)** | **35,664** |
| First quarter | 888 | 2,639 | 957 | 607 | 2,219 | 78 | (182) | 7,206 |
| Second quarter | 789 | 2,391 | 930 | 659 | 2,153 | 74 | (193) | 6,803 |
| Third quarter | 948 | 2,647 | 981 | 706 | 2,232 | 65 | (191) | 7,388 |
| Fourth quarter | 1,348 | 3,151 | 1,138 | 810 | 2,916 | 95 | (217) | 9,241 |
| **Total 2014** | **3,973** | **10,828** | **4,006** | **2,782** | **9,520** | **312** | **(783)** | **30,638** |

# 24. EXPENSES BY NATURE

Profit from recurring operations includes the following expenses:

| *(EUR millions)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Advertising and promotion expenses | 4,242 | 4,017 | 3,484 |
| Commercial lease expenses | 3,422 | 3,388 | 2,742 |
| Personnel costs | 6,575 | 6,249 | 5,455 |
| Research and development expenses | 111 | 97 | 79 |

Advertising and promotion expenses mainly consist of the cost of media campaigns and point-of-sale advertising, and also include personnel costs dedicated to this function.

As of December 31, 2016, a total of 3,948 stores were operated by the Group worldwide (3,860 in 2015; 3,708 in 2014), particularly by Fashion and Leather Goods and Selective Retailing.

In certain countries, leases for stores entail the payment of both minimum amounts and variable amounts, especially for stores with lease payments indexed to revenue. The total lease expense for the Group's stores breaks down as follows:

| *(EUR millions)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Fixed or minimum lease payments | 1,669 | 1,619 | 1,288 |
| Variable portion of indexed leases | 620 | 604 | 412 |
| Airport concession fees – fixed portion or minimum amount | 580 | 594 | 557 |
| Airport concession fees – variable portion | 553 | 571 | 485 |
| **Commercial lease expenses** | **3,422** | **3,388** | **2,742** |

Personnel costs consist of the following elements:

| *(EUR millions)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Salaries and social charges | 6,420 | 6,122 | 5,323 |
| Pensions, contribution to medical costs and expenses in respect of defined benefit plans [a] | 114 | 90 | 93 |
| Stock option plan and related expenses [b] | 41 | 37 | 39 |
| **Personnel costs** | **6,575** | **6,249** | **5,455** |

(a) See Note 29.
(b) See Note 16.3.

# 25. OTHER OPERATING INCOME AND EXPENSES

| *(EUR millions)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Net gains (losses) on disposals of fixed assets | 39 | 1 | 1 |
| Restructuring costs | 3 | (98) | (36) |
| Transaction costs relating to the acquisition of consolidated companies | (3) | (2) | (8) |
| Impairment or amortization of brands, trade names, goodwill and other property | (155) | (136) | (246) |
| Other items, net | (6) | 14 | 5 |
| **Other operating income and expenses** | **(122)** | **(221)** | **(284)** |

Impairment and amortization expenses recorded are mostly for brands and goodwill.

Net gains (losses) on disposals included the gain related to the sale of Donna Karan International to G-III Apparel Group (see Note 2).

## 26. NET FINANCIAL INCOME/(EXPENSE)

| *(EUR millions)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Borrowing costs | (92) | (111) | (144) |
| Income from cash, cash equivalents and current available for sale financial assets | 26 | 33 | 30 |
| Fair value adjustment of borrowings and interest rate hedges | (17) | - | (1) |
| **Cost of net financial debt** | **(83)** | **(78)** | **(115)** |
| Dividends received from non-current available for sale financial assets | 6 | 4 | 74 |
| Ineffective portion of foreign currency hedges | (330) | (437) | (238) |
| Net gain/(loss) related to available for sale financial assets and other financial instruments | 6 | 129 | 3,263 |
| Other items, net | (31) | (32) | (37) |
| **Other financial income/(expenses)** | **(349)** | **(336)** | **3,062** |
| **Net financial income/(expense)** | **(432)** | **(414)** | **2,947** |

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

| *(EUR millions)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Income from cash and cash equivalents | 14 | 18 | 18 |
| Interest from current available for sale financial assets | 12 | 15 | 12 |
| **Income from cash, cash equivalents and current available for sale financial assets** | **26** | **33** | **30** |

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

| *(EUR millions)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Ineffective portion of commercial foreign exchange derivatives | (267) | (378) | (222) |
| Ineffective portion of foreign exchange derivatives related to net investments denominated in foreign currency | (6) | (2) | 6 |
| Ineffective portion of other foreign exchange derivatives | (57) | (57) | (22) |
| **Ineffective portion of foreign exchange derivatives** | **(330)** | **(437)** | **(238)** |

In 2016 and 2015, the net gain/(loss) related to available for sale financial assets and other financial instruments was mainly due to capital gains arising on the sale of available for sale financial assets.

In 2014, the net gain/(loss) related to available for sale financial assets and other financial instruments consisted mainly of the 3,189 million euro capital gain recognized following the exceptional distribution in kind of Hermès shares. See Note 8 to the 2014 consolidated financial statements.

## 27. INCOME TAXES

| *(EUR millions)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Current income taxes for the fiscal year | (2,653) | (2,245) | (2,458) |
| Current income taxes relating to previous fiscal years | (16) | 32 | 30 |
| **Current income taxes** | **(2,669)** | **(2,213)** | **(2,428)** |
| Change in deferred income taxes | 278 | 137 | 153 |
| Impact of changes in tax rates on deferred taxes | 282 | 107 | 2 |
| **Deferred income taxes** | **560** | **244** | **155** |
| **Total tax expense per income statement** | **(2,109)** | **(1,969)** | **(2,273)** |
| **Tax on items recognized in equity** | **115** | **121** | **406** |

In 2016, the impact of changes in tax rates on deferred taxes essentially resulted from the reduction in the tax rate in France passed in the 2017 budget act, which brings the tax rate to 28.92% starting in 2020. As a result, long-term deferred taxes – essentially related to acquired brands – were revalued based on the rate applicable as of 2020. In 2015, these impacts resulted from the reduction in the tax rate in Italy starting in 2017, which was applied to deferred taxes, mainly deferred taxes related to acquired brands.

The exceptional contribution on corporate income tax, which had been applicable in France since 2012, was discontinued in 2016. It amounted to 10.7% of the corporate income tax due for fiscal years 2015 and 2014, representing an expense of 69 million euros and 54 million euros, respectively.

The effective tax rate is as follows:

| *(EUR millions)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Profit before tax | 6,472 | 5,970 | 8,378 |
| Total income tax expense | (2,109) | (1,969) | (2,273) |
| **Effective tax rate** | **32.6%** | **33.0%** | **27.1%** |

# 28. EARNINGS PER SHARE

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| **Net profit, Group share** *(EUR millions)* | **3,981** | **3,573** | **5,648** |
| Average number of shares in circulation during the fiscal year | 507,210,806 | 507,543,064 | 507,978,312 |
| Average number of treasury shares owned during the fiscal year | (4,299,681) | (5,147,573) | (6,668,943) |
| **Average number of shares on which the calculation before dilution is based** | **502,911,125** | **502,395,491** | **501,309,369** |
| **Basic earnings per share** *(EUR)* | **7.92** | **7.11** | **11.27** |
| Average number of shares on which the above calculation is based | 502,911,125 | 502,395,491 | 501,309,369 |
| Dilution effect of stock option plans | 1,729,334 | 2,499,455 | 2,552,364 |
| Other dilution effects | - | - | - |
| **Average number of shares on which the calculation after dilution is based** | **504,640,459** | **504,894,946** | **503,861,733** |
| **Diluted Group share of profit per share** *(EUR)* | **7.89** | **7.08** | **11.21** |

As of December 31, 2016, all of the instruments in circulation that may dilute earnings per share have been taken into consideration when determining the impact of dilution, given that all of the outstanding subscription options are considered to be available to be exercised at that date, since the LVMH share price is higher than the exercise price of these options.

No events occurred between December 31, 2016 and the date at which the financial statements were approved for publication that would have significantly affected the number of shares outstanding or the potential number of shares.

In 2014, the impact of the distribution in kind of Hermès shares on the Group's net profit (see Note 8 to the 2014 consolidated financial statements) was 2,677 million euros, i.e. 5.34 euros per share (5.31 euros after dilution).

# 29. PROVISIONS FOR PENSIONS, CONTRIBUTION TO MEDICAL COSTS AND OTHER EMPLOYEE BENEFIT COMMITMENTS

The expense recognized in the fiscal years presented for provisions for pensions, contribution to medical costs and other employee benefit commitments is as follows:

| *(EUR millions)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Service cost | 100 | 98 | 76 |
| Net interest cost | 13 | 15 | 13 |
| Actuarial gains and losses | 1 | 3 | 4 |
| Changes in plans | - | (20) | - |
| **Total expense for the period for defined benefit plans** | **114** | **96** | **93** |

# 30. OFF-BALANCE SHEET COMMITMENTS

## 30.1. Purchase commitments

| *(EUR millions)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Grapes, wines and *eaux-de-vie* | 1,962 | 2,043 | 1,706 |
| Other purchase commitments for raw materials | 87 | 94 | 69 |
| Industrial and commercial fixed assets | 613 | 808 | 458 |
| Investments in joint venture shares and non-current available for sale financial assets | 953 | 132 | 99 |

Some Wines and Spirits companies have contractual purchase arrangements with various local producers for the future supply of grapes, still wines and *eaux-de-vie*. These commitments are valued, depending on the nature of the purchases, on the basis of the contractual terms or known fiscal year-end prices and estimated production yields.

As of December 31, 2016, the maturity schedule of these commitments is as follows:

| *(EUR millions)* | Less than one year | One to five years | More than five years | Total |
|---|---|---|---|---|
| Grapes, wines and *eaux-de-vie* | 620 | 1,297 | 45 | 1,962 |
| Other purchase commitments for raw materials | 60 | 25 | 2 | 87 |
| Industrial and commercial fixed assets | 498 | 115 | - | 613 |
| Investments in joint venture shares and non-current available for sale financial assets | 688 | 246 | 19 | 953 |

As of December 31, 2016, purchase commitments for shares and non-current available for sale financial assets included the amount related to the acquisition of Rimowa. See Note 32.

## 30.2. Lease and similar commitments

In connection with its business activities, the Group enters into agreements for the rental of premises or airport concession contracts. The Group also finances a portion of its equipment through long-term operating leases.

The fixed or minimum portions of commitments in respect of the irrevocable period of operating lease or concession contracts were as follows as of December 31, 2016:

| *(EUR millions)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Less than one year | 2,024 | 1,860 | 1,658 |
| One to five years | 4,965 | 4,599 | 3,788 |
| More than five years | 3,107 | 3,021 | 1,952 |
| **Commitments given for operating leases and concessions** | **10,096** | **9,480** | **7,398** |
| Less than one year | 14 | 18 | 13 |
| One to five years | 17 | 14 | 16 |
| More than five years | 6 | 2 | - |
| **Commitments received for sub-leases** | **37** | **34** | **29** |

In addition, the Group may enter into operating leases or concession contracts that have variable guaranteed amounts. For example, the concession agreement obtained by DFS at Hong Kong International Airport in June 2012 provides for the payment of a variable concession fee, which depends in particular on the number of passengers using the airport. In 2016, this fee was approximately 439 million euros.

## 30.3. Collateral and other guarantees

As of December 31, 2016, these commitments break down as follows:

| *(EUR millions)* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Securities and deposits | 400 | 455 | 366 |
| Other guarantees | 132 | 136 | 88 |
| **Guarantees given** | **532** | **591** | **454** |
| **Guarantees received** | **34** | **28** | **27** |

The maturity dates of these commitments are as follows:

| *(EUR millions)* | Less than one year | One to five years | More than five years | Total |
|---|---|---|---|---|
| Securities and deposits | 251 | 142 | 7 | 400 |
| Other guarantees | 59 | 61 | 12 | 132 |
| **Guarantees given** | **310** | **203** | **19** | **532** |
| **Guarantees received** | **12** | **6** | **16** | **34** |

## 30.4. Other commitments

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

# 31. EXCEPTIONAL EVENTS AND LITIGATION

No significant change in exceptional events and litigation occurred during the fiscal year.

# 32. SUBSEQUENT EVENTS

On January 23, 2017, pursuant to the transaction agreement announced on October 4, 2016, LVMH acquired, for 640 million euros, an 80% stake in Rimowa, the luggage and leather goods maker founded in Cologne in 1898 and known for its innovative, high-quality luggage. The 20% of the share capital that has not been acquired is covered by a put option granted by LVMH, exercisable from 2020. Rimowa will be fully consolidated with effect from January 2017. Rimowa's revenue for 2016 is expected to exceed 400 million euros.

On January 20, 2017, the put option for the remaining Loro Piana shares held by the Loro Piana family was partially exercised. The sale will take place in February 2017 and will increase LVMH's stake in Loro Piana by 4.8%, bringing its shareholding to 84.8%.

No other significant subsequent events occurred between December 31, 2016 and January 26, 2017, the date at which the financial statements were approved for publication by the Board of Directors.

Design and production: Agence Marc Praquin

LVMH

MOËT HENNESSY . LOUIS VUITTON

For any information:
LVMH, 22 avenue Montaigne - 75008 Paris
Tel. +33 1 44 13 22 22 - Fax +33 1 44 13 21 19

www.lvmh.com