LVMH

MOËT HENNESSY • LOUIS VUITTON

TRANSLATION OF THE FRENCH FINANCIAL DOCUMENTS

FISCAL YEAR ENDED DECEMBER 31, 2018

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EXECUTIVE AND SUPERVISORY BODIES; STATUTORY AUDITORS AS OF DECEMBER 31, 2018

Board of Directors

Bernard Arnault
Chairman and Chief Executive Officer

Antonio Belloni
Group Managing Director

Antoine Arnault

Delphine Arnault

Nicolas Bazire

Bernadette Chirac (a)

Charles de Croisset (a)

Diego Della Valle (a)

Clara Gaymard (a)

Marie-Josée Kravis (a)

Lord Powell of Bayswater

Marie-Laure Sauty de Chalon (a)

Yves-Thibault de Silguy (a)

Hubert Védrine (a)

Sophie Chassat (b)

Advisory Board member

Paolo Bulgari

Executive Committee

Bernard Arnault
Chairman and Chief Executive Officer

Antonio Belloni
Group Managing Director

Delphine Arnault (c)
Louis Vuitton Products

Nicolas Bazire
Development and Acquisitions

Pietro Beccari
Christian Dior Couture

Michael Burke
Louis Vuitton

Chantal Gaemperle
Human Resources and Synergies

Jean-Jacques Guiony
Finance

Christopher de Lapuente
Sephora and Beauty

Philippe Schaus
Wines and Spirits

Sidney Toledano
Fashion Group

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)

Hubert Védrine (a)

Statutory Auditors

ERNST & YOUNG Audit
represented by Jeanne Boillet and Patrick Vincent-Genod

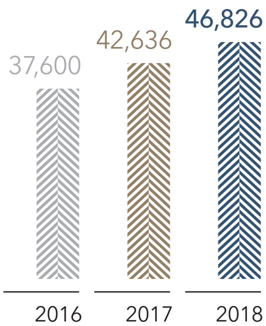
MAZARS
represented by Simon Beillevaire and Loïc Wallaert

(a) Independent Director.
(b) Appointment proposed to the Shareholders' Meeting of April 18, 2019.
(c) Appointment as from January 15, 2019.

FINANCIAL HIGHLIGHTS

Revenue

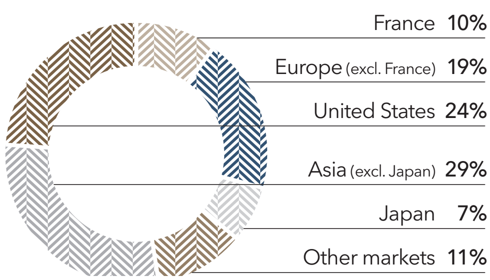
(EUR millions)



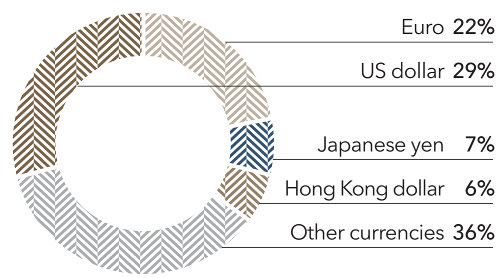
Change in revenue by business group *(EUR millions and percentage)*	2018	2017	2018/2017 Change		2016
			Published	Organic[(a)]	
Wines and Spirits	5,143	5,084	+1%	+5%	4,835
Fashion and Leather Goods	18,455	15,472	+19%	+15%	12,775
Perfumes and Cosmetics	6,092	5,560	+10%	+14%	4,953
Watches and Jewelry	4,123	3,805	+8%	+12%	3,468
Selective Retailing	13,646	13,311	+3%	+6%	11,973
Other activities and eliminations	(633)	(596)	-	-	(404)
Total	**46,826**	**42,636**	**+10%**	**+11%**	**37,600**

(a) On a constant consolidation scope and currency basis. The net impact of exchange rate fluctuations on Group revenue was -4% and the net impact of changes in the scope of consolidation was +3%. 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.

Revenue by geographic region of delivery

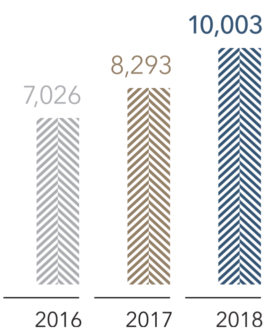


Revenue by invoicing currency



Profit from recurring operations

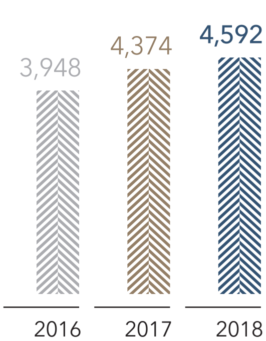
(EUR millions)



Profit from recurring operations by business group *(EUR millions)*	2018	2017	2016
Wines and Spirits	1,629	1,558	1,504
Fashion and Leather Goods	5,943	4,905	3,873
Perfumes and Cosmetics	676	600	551
Watches and Jewelry	703	512	458
Selective Retailing	1,382	1,075	919
Other activities and eliminations	(330)	(357)	(279)
Total	**10,003**	**8,293**	**7,026**

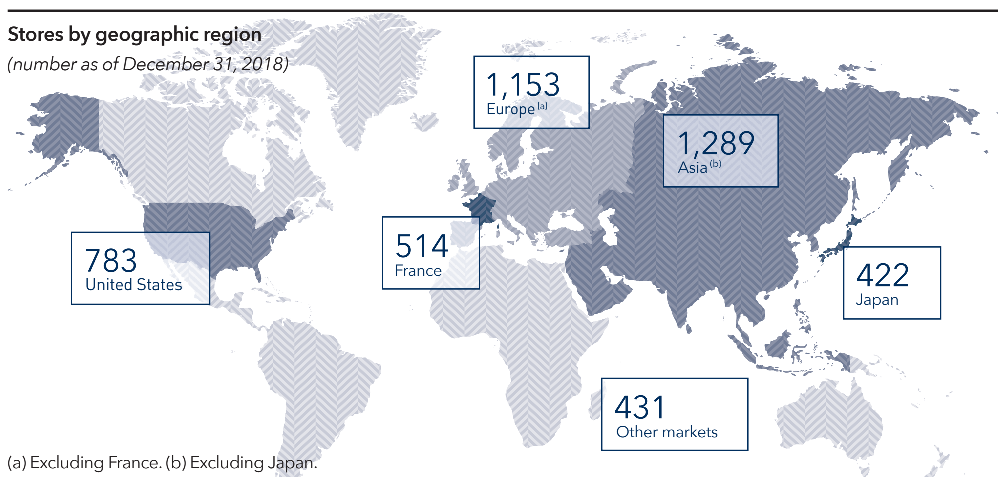
Stores

(number)



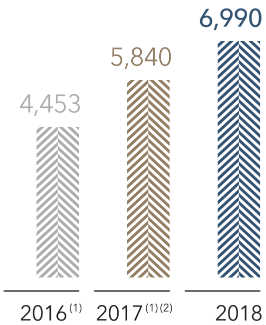
Stores by geographic region

(number as of December 31, 2018)

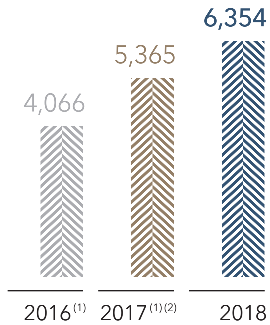


(a) Excluding France. (b) Excluding Japan.

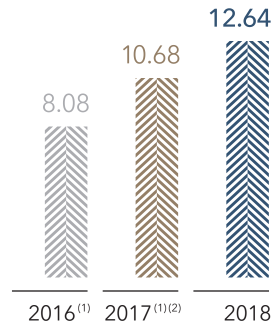
Net profit
(EUR millions)



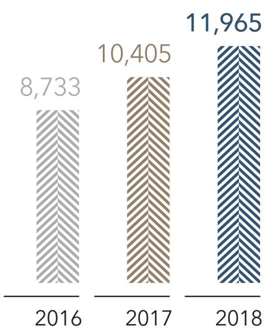
Net profit, Group share
(EUR millions)



Basic Group share of net earnings per share
(EUR)

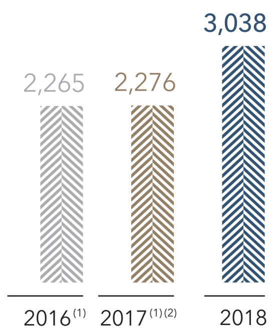


Cash from operations before changes in working capital[a]
(EUR millions)

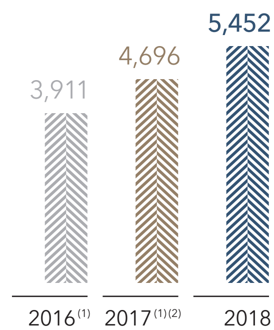


(a) Before interest and tax paid.

Operating investments
(EUR millions)

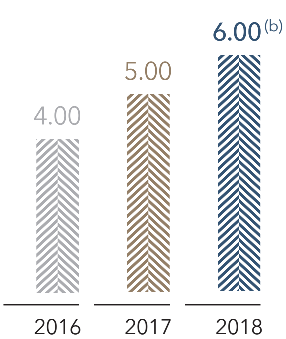


Free cash flow[a]
(EUR millions)



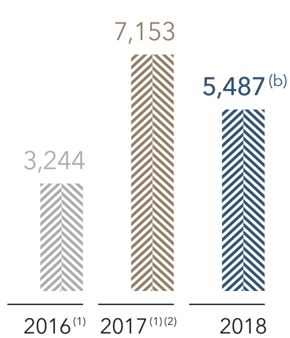
(a) Net cash from operating activities and operating investments.

Dividend per share[a]
(EUR)



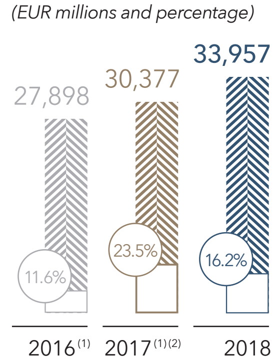
(a) Gross amount paid for fiscal year, excluding the impact of regulations applicable to the recipient.
(b) Amount proposed at the Shareholders' Meeting of April 18, 2019.

Adjusted 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.
(b) Excluding the acquisition of Belmond shares. See Note 18.1 of notes to the condensed financial statements.

Equity and Adjusted net financial debt/ Equity ratio[a]
(EUR millions and percentage)



(a) In 2018, excluding the acquisition of Belmond shares. See Note 18.1 of notes to the condensed financial statements.

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(1) The financial statements as of December 31, 2017 and 2016 have been restated to reflect the retrospective application with effect from January 1, 2016 of IFRS 9 Financial instruments. See Note 1.2 of notes to the condensed consolidated financial statements.
(2) The financial statements as of December 31, 2017 have been restated to reflect the definitive purchase price allocation of Christian Dior Couture. See Note 2 of notes to the condensed consolidated financial statements.

HIGHLIGHTS AND OUTLOOK

Key highlights from 2018 include:

- further double-digit increase in revenue and profit from recurring operations, which reached record levels,
- continued growth in Europe, the United States, Asia and Japan,
- excellent performance in Wines and Spirits and exceptional grape harvests,
- success of both iconic and new products at Louis Vuitton, whose profitability remains at an exceptional level,
- very good first year for Christian Dior Couture within LVMH,
- creative renewal at several Maisons,
- strong growth at the flagship brands of Perfumes and Cosmetics,
- excellent year for Bvlgari and good development of Hublot and TAG Heuer
- growth at Sephora, which strengthened its positions in all its markets and in digital,
- agreement with the Belmond group,
- free cash flow of 5.5 billion euros, up 16%,
- gearing of 16.2% at the end of December 2018.

SHARE CAPITAL AND VOTING RIGHTS

	Number of shares	Number of voting rights[a]	% of capital	% of voting rights
Arnault Family Group	238,155,505	464,890,015	47.16%	63.27%
Other	266,873,990	269,838,087	52.84%	36.73%
Total as of December 31, 2018	**505,029,495**	**734,728,102**	**100.00%**	**100.00%**

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

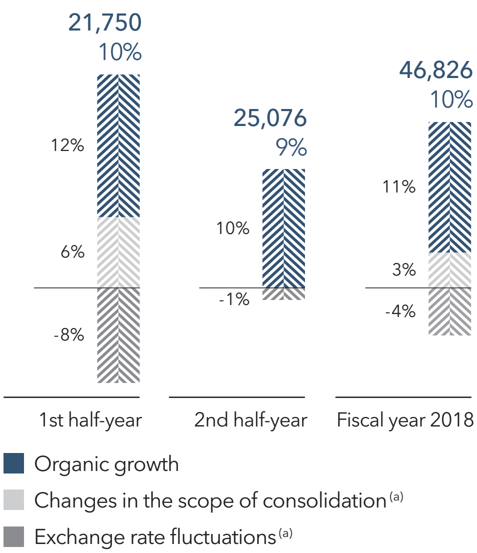
BUSINESS REVIEW AND COMMENTS ON THE CONSOLIDATED FINANCIAL STATEMENTS OF LVMH GROUP

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.

Revenue for fiscal year 2018 was 46,826 million euros, up 10% over the preceding fiscal year. Many of the Group's invoicing currencies weakened against the euro, notably the US dollar, thus making a negative 4 point impact to revenue growth.

The main change to the Group's consolidation scope since January 1, 2017 related to the integration of Christian Dior Couture in Fashion and Leather Goods as of the second half of 2017. This change in the scope of consolidation made a positive 3 point contribution to revenue growth.

On a constant consolidation scope and currency basis, revenue increased by 11%.

Revenue by invoicing currency

(as %)	2018	2017	2016
Euro	22	23	23
US dollar	29	30	32
Japanese yen	7	7	7
Hong Kong dollar	6	6	6
Other currencies	36	34	32
Total	**100**	**100**	**100**

The breakdown of revenue by invoicing currency changed very little. The contributions of the euro and the US dollar fell by 1 point each to 22% and 29%, respectively. The contributions of the Japanese yen and the Hong Kong dollar remained stable at 7% and 6%, respectively, while that of other currencies rose by 2 points to 36%.

Revenue by geographic region of delivery

(as %)	2018	2017	2016
France	10	10	10
Europe (excluding France)	19	19	18
United States	24	25	27
Japan	7	7	7
Asia (excluding Japan)	29	28	26
Other markets	11	11	12
Total	**100**	**100**	**100**

By geographic region of delivery, the relative contribution of Asia (excluding Japan) to Group revenue rose by 1 point to 29% while that of the United States fell by 1 point to 24%. The relative contributions of France, Europe (excluding France), Japan and other markets remained stable at 10%, 19%, 7% and 11%, respectively.

Revenue by business group

(EUR millions)	2018	2017	2016
Wines and Spirits	5,143	5,084	4,835
Fashion and Leather Goods	18,455	15,472	12,775
Perfumes and Cosmetics	6,092	5,560	4,953
Watches and Jewelry	4,123	3,805	3,468
Selective Retailing	13,646	13,311	11,973
Other activities and eliminations	(633)	(596)	(404)
Total	**46,826**	**42,636**	**37,600**

By business group, the breakdown of Group revenue changed appreciably. The contribution of Fashion and Leather Goods rose 3 points to 39%, while the contributions of Wines and Spirits and Selective Retailing decreased respectively by 1 point and 2 points to 11% and 29%. The contributions of Perfumes and Cosmetics and Watches and Jewelry remained stable at 13% and 9%, respectively.

Revenue for Wines and Spirits increased by 5% on a constant consolidation scope and currency basis. Impacted by a negative exchange rate impact of 4 points, published revenue for this business group increased by 1%. This performance was largely driven by higher prices and a favorable product mix. Demand remained very strong in Asia, particularly in China, with the latter still the second-largest market for the Wines and Spirits business group.

Fashion and Leather Goods posted organic growth of 15%. The positive consolidation scope impact of 8 points resulting from the integration of Christian Dior Couture, tempered by the negative exchange rate impact of 3 points, raised this growth to 19% based on published figures. This business group's performance was driven by the very solid momentum achieved by Louis Vuitton and Christian Dior Couture, as well as by Celine, Loro Piana, Kenzo, Loewe, Fendi and Berluti, which confirmed their potential for strong growth.

Revenue for Perfumes and Cosmetics increased by 14% on a constant consolidation scope and currency basis, and by 10% based on published figures. This growth and the related market share gains 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 significant revenue growth across all regions, Asia in particular.

Revenue for Watches and Jewelry increased by 12% on a constant consolidation scope and currency basis, and by 8% based on published figures. The business group benefited from the good performance of Bvlgari; Chaumet, Hublot and Fred saw strong gains. Asia and the United States were the most buoyant regions.

Revenue for Selective Retailing increased by 6% on a constant consolidation scope and currency basis, and by 3% based on published figures. It is worth noting that this performance was achieved in spite of the negative impact of the termination of the Hong Kong airport concessions operated by DFS at the close of 2017. The business group's performance was driven by Sephora, which saw appreciable growth in revenue, and by the return of Chinese tourists to regions where DFS has many locations.

1.2 Profit from recurring operations

(EUR millions)	**2018**	**2017**	**2016**
Revenue	46,826	42,636	37,600
Cost of sales	(15,625)	(14,783)	(13,039)
Gross margin	31,201	27,853	24,561
Marketing and selling expenses	(17,755)	(16,395)	(14,607)
General and administrative expenses	(3,466)	(3,162)	(2,931)
Income/(loss) from joint ventures and associates	23	(3)	3
Profit from recurring operations	**10,003**	**8,293**	**7,026**
Operating margin *(%)*	**21.4**	**19.5**	**18.7**

The Group achieved a gross margin of 31,201 million euros, up 12% compared to the prior fiscal year. As a percentage of revenue, the gross margin was 67%, 1.3 points higher than in 2017.

Marketing and selling expenses totaled 17,755 million euros, up 8% based on published figures and up 11% 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 fell by 0.6 points to 38%. Among these marketing and selling expenses, advertising and promotion costs amounted to 12% of revenue, increasing by 14% on a constant consolidation scope and currency basis.

The geographic breakdown of stores was as follows:

(number)	**2018**	**2017 [(a)]**	**2016 [(b)]**
France	514	508	492
Europe (excluding France)	1,153	1,156	1,061
United States	783	754	703
Japan	422	412	387
Asia (excluding Japan)	1,289	1,151	991
Other markets	431	393	314
Total	**4,592**	**4,374**	**3,948**

(a) Including 198 stores for Christian Dior Couture and 57 for Rimowa.
(b) Excluding Rimowa and Christian Dior Couture, whose networks were integrated in 2017.

General and administrative expenses totaled 3,466 million euros, up 10% based on published figures and up 9% on a constant consolidation scope and currency basis. They amounted to 7% of revenue, remaining stable with respect to 2017.

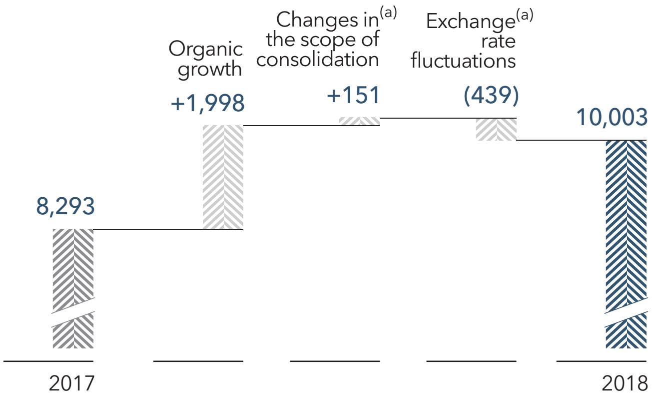
Profit from recurring operations by business group

(EUR millions)	**2018**	**2017**	**2016**
Wines and Spirits	1,629	1,558	1,504
Fashion and Leather Goods	5,943	4,905	3,873
Perfumes and Cosmetics	676	600	551
Watches and Jewelry	703	512	458
Selective Retailing	1,382	1,075	919
Other activities and eliminations	(330)	(357)	(279)
Total	**10,003**	**8,293**	**7,026**

The Group's profit from recurring operations was 10,003 million euros, up 21%. The Group's operating margin as a percentage of revenue was 21.4%, up 1.9 points compared with December 31, 2017.

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 negative overall impact of 439 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 and currency basis, the Group's profit from recurring operations was up 24%.

Wines and Spirits

	2018	2017	2016
Revenue *(EUR millions)*	5,143	5,084	4,835
Profit from recurring operations *(EUR millions)*	1,629	1,558	1,504
Operating margin *(%)*	31.7	30.6	31.1

Profit from recurring operations for Wines and Spirits was 1,629 million euros, up 5% compared with 2017. Champagne and Wines contributed 649 million euros while Cognacs and Spirits accounted for 980 million euros. This performance was the result of both sales volume growth and a favorable impact of the mix of products sold. The operating margin as a percentage of revenue for this business increased by 1.1 points to 31.7%.

Fashion and Leather Goods

	2018	2017	2016
Revenue *(EUR millions)*	18,455	15,472	12,775
Profit from recurring operations *(EUR millions)*	5,943	4,905	3,873
Operating margin *(%)*	32.2	31.7	30.3

Fashion and Leather Goods posted profit from recurring operations of 5,943 million euros, up 21% compared with 2017. This sharp increase included the positive impact of the consolidation of Christian Dior Couture, but above all reflected the very strong performance of certain brands. Louis Vuitton maintained its exceptional level of profitability. Loewe and Loro Piana confirmed their profitable growth momentum while Marc Jacobs, Pink Shirtmaker and Pucci improved their results. The business group's operating margin as a percentage of revenue grew by 0.5 points to 32.2%.

Perfumes and Cosmetics

	2018	2017	2016
Revenue *(EUR millions)*	6,092	5,560	4,953
Profit from recurring operations *(EUR millions)*	676	600	551
Operating margin *(%)*	11.1	10.8	11.1

Profit from recurring operations for Perfumes and Cosmetics was 676 million euros, up 13% from 2017. This growth was driven by Parfums Christian Dior, Guerlain, Fresh, Parfums Givenchy and Benefit, 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 grew by 0.3 points to 11.1%.

Watches and Jewelry

	2018	2017	2016
Revenue *(EUR millions)*	4,123	3,805	3,468
Profit from recurring operations *(EUR millions)*	703	512	458
Operating margin *(%)*	17.1	13.5	13.2

Profit from recurring operations for Watches and Jewelry was 703 million euros, up 37% compared with 2017. This increase was the result of strong performance at Bvlgari, Hublot and Chaumet, with operating margin as a percentage of revenue rising by 3.6 points to 17.1%.

Selective Retailing

	2018	2017	2016
Revenue *(EUR millions)*	13,646	13,311	11,973
Profit from recurring operations *(EUR millions)*	1,382	1,075	919
Operating margin *(%)*	10.1	8.1	7.7

Profit from recurring operations for Selective Retailing was 1,382 million euros, up 29% from 2017. This improvement was driven by DFS, which benefited from its strong commercial performance and from the favorable impact of the termination of the Hong Kong airport concessions.

The business group's operating margin as a percentage of revenue grew by 2 points to 10.1%.

Other activities

The result from recurring operations of "Other activities and eliminations" was a loss of 330 million euros, representing an improvement relative to 2017. 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)	2018	2017(1)(2)	2016(1)
Profit from recurring operations	10,003	8,293	7,026
Other operating income and expenses	(126)	(180)	(122)
Operating profit	9,877	8,113	6,904
Net financial income/(expense)	(388)	(59)	(318)
Income taxes	(2,499)	(2,214)	(2,133)
Net profit before minority interests	**6,990**	**5,840**	**4,453**
Minority interests	(636)	(475)	(387)
Net profit, Group share	**6,354**	**5,365**	**4,066**

(1) The financial statements as of December 31, 2017 and December 31, 2016 have been restated to reflect the retrospective application with effect from January 1, 2016 of IFRS 9 Financial Instruments. See Note 1.2 to the condensed consolidated financial statements.
(2) The financial statements as of December 31, 2017 have been restated to reflect the definitive allocation of the purchase price of Christian Dior Couture. See Note 2 to the condensed consolidated financial statements.

"Other operating income and expenses" amounted to a net expense of 126 million euros, compared with a net expense of 180 million euros in 2017. In 2018, "Other operating income and expenses" included 117 million euros in amortization and impairment charges for brands and goodwill. The remainder was essentially comprised of expenses relating to acquisitions.

The Group's operating profit was 9,877 million euros, up 22% compared with 2017.

The net financial expense for the fiscal year was 388 million euros, compared with a net financial expense (restated to reflect the application of IFRS 9) of 59 million euros as of December 31, 2017. This item comprised:

- the aggregate cost of net financial debt, which totaled 117 million euros, representing an improvement of 20 million euros compared to 2017 (after restatement to reflect the application of IFRS 9);
- other financial income and expenses, which amounted to a net expense of 271 million euros, compared to net income of 78 million euros in 2017 (after restatement to reflect the application of IFRS 9). The expense related to the cost of foreign exchange derivatives was 160 million euros, versus an expense of 168 million euros a year earlier. Lastly, other income from financial instruments, which mainly arose from capital gains on sales and changes in market value of available for sale financial assets, amounted to a net expense of 108 million euros, compared to net income of 264 million euros in 2017.

The Group's effective tax rate was 26%, down 1 point relative to 2017. This decrease primarily reflected the downward trend in corporate tax rates worldwide, particularly in the United States.

Profit attributable to minority interests was 636 million euros, compared to 475 million euros in 2017; this total mainly includes profit attributable to minority interests in Moët Hennessy and DFS.

The Group's share of net profit was 6,354 million euros, compared with 5,365 million euros in 2017. This represented 14% of revenue in 2018, up 1 point with respect to 2017. The Group share of net profit in 2018 was up 18% compared to 2017.

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

	2018	2017	2016
Revenue *(EUR millions)*	**5,143**	**5,084**	**4,835**
Of which: Champagne and wines	*2,369*	*2,406*	*2,288*
Cognac and spirits	*2,774*	*2,679*	*2,547*
Sales volume *(millions of bottles)*			
Champagne	64.9	65.6	63.2
Cognac	93.3	90.9	83.8
Other spirits	19.1	17.8	19.1
Still and sparkling wines	38.5	43.8	44.2
Revenue by geographic region of delivery *(%)*			
France	6	6	6
Europe (excluding France)	19	18	18
United States	32	32	31
Japan	6	6	6
Asia (excluding Japan)	23	22	22
Other markets	14	16	17
Total	**100**	**100**	**100**
Profit from recurring operations *(EUR millions)*	**1,629**	**1,558**	**1,504**
Operating margin *(%)*	**31.7**	**30.6**	**31.1**
Operating investments of the period *(EUR millions)*	**298**	**292**	**276**

Highlights

The Wines and Spirits business group performed well, in keeping with its value-enhancing strategy, and reaffirmed its leadership position by pursuing balanced geographic expansion, with particularly remarkable momentum in the United States and Asia. The Maisons maintained a strong innovation policy and stepped up their environmental and social commitments.

The champagne Maisons enhanced their value propositions in a particularly competitive market. While champagne volumes were down 1%, organic revenue growth was 4%. The increased value was driven by more rapid growth in prestige cuvées and a firm price increase policy. For all Maisons, it was a year of exceptional harvests in terms of both quality and quantity.

Moët & Chandon consolidated its leading position with solid growth in value, driven by successful product innovations such as *Ice Impérial* and *Ice Impérial Rosé*. In June, the Maison unveiled its new signature, "Must be Moët & Chandon", and in December announced a partnership with the FIA Formula E championship for electric cars.

Dom Pérignon continued to reaffirm its unique model. Its growth was driven by *Dom Pérignon Vintage 2009* and *Dom Pérignon 2000 Plénitude 2*. A highlight of the year was the passing of the torch by Richard Geoffroy – the Maison's cellar master for the past 28 years – on to Vincent Chaperon, who has worked alongside him since 2005. An artistic collaboration was launched with Lenny Kravitz.

On the occasion of its 160th anniversary, **Mercier** unveiled a fully renovated visitor center.

Following another record-setting year, **Ruinart** confirmed its growth, driven in particular by its premium cuvées and its iconic *Blanc de Blancs*. The Maison's oenological excellence was highlighted once again by the launch of *Dom Ruinart 2007*. Its support for contemporary art was illustrated by photographer Liu Bolin's creations depicting the people and expertise behind Ruinart.

In 2018, **Veuve Clicquot** celebrated the bicentennial of the first-ever blended Rosé, created by Madame Clicquot. The Maison continued to honor women entrepreneurs around the world by launching the Veuve Clicquot Businesswoman of the Year Award in Japan, Hong Kong, Russia and South Korea. Construction continued at its new production site near Reims.

Krug gained momentum with *Krug Grande Cuvée 166e Édition* and *Krug Rosé 21e Édition*. The Krug Encounters program, rolled out worldwide, met with great success and the Krug Echoes communication platform was enriched with the addition of innovative tasting experiences.

Estates & Wines reinforced its wines' reputation for excellence among consumers and opinion leaders: Terrazas de los Andes was named Argentine Wine Producer of the Year, while Newton was recognized by industry publications, receiving exceptional tasting notes.

Chandon launched *Aluminum Sweet Star Mini*, a single-serving bottle, in the United States. *Chandon Brut* was named Best Australian Sparkling Wine and *Baron B Brut Nature* was selected as Best Argentine Sparkling Wine, crowning the excellent work of its oenologists.

Hennessy maintained excellent momentum in its strategic markets (the United States and China) as well as emerging markets (Africa, the Caribbean, Russia and Eastern Europe), with all its ranges of cognac contributing to this performance in a supply-constrained environment. Organic revenue growth in 2018 came to 7%, with volumes up 3%. The Maison continued to innovate across the various quality grades in its portfolio. It also maintained a high level of investment to ensure the excellence of its *eaux-de-vie* and increased its production capacity at the new Pont Neuf site – an exemplary model of sustainable design – which was inaugurated in 2017. Marketing campaigns allowed it to reach target customers with even more precision, while the online portion progressed strongly.

Glenmorangie and **Ardbeg** whiskies delivered a solid performance, fueled by ongoing innovation and value creation provided by prestigious offerings designed for connoisseurs and collectors. An ambitious expansion plan is underway for both companies' distilleries.

Belvedere vodka's growth was also driven by innovation. Its new *Single Estate Rye* series received numerous awards. The brand maintained its commitment to social and environmental responsibility.

Volcan De Mi Tierra tequila, launched in 2017, continued its selective rollout in its two main markets, the United States and Mexico.

Woodinville Whiskey Company successfully began its commercial expansion outside Washington State.

The **Clos 19** online platform enriched its selection of exclusive products and experiences. It continued its expansion in the United States and consolidated its position in the United Kingdom and Germany.

Outlook

Excellence, innovation and careful attention to customers' specific expectations in each country will continue to drive growth and value creation in the Wines and Spirits business group in the coming months. In an uncertain global context, all Maisons will rely on their highly dedicated staff, their drive for excellence and innovation, and the strong appeal of their brands to continue securing and sustainably building their long-term future. The diverse range of customer experience they have built up, thanks to the strength of their creative, high-quality product portfolios, will help them adapt to new lifestyles and win over the next generation of consumers. Moët Hennessy's powerful and agile global distribution network is a major asset, enabling it to react to changes in the economic environment and seize every opportunity to increase market share. Increasing production capacity remains a top priority, along with a very active sourcing policy for all Maisons. As part of their long-term vision, all Maisons aim to step up their sustainability commitment to protect the environment and preserve their expertise.

3. FASHION AND LEATHER GOODS

	2018	2017	2016
Revenue *(EUR millions)*	**18,455**	**15,472**	**12,775**
Revenue by geographic region of delivery *(%)*			
France	9	9	9
Europe (excluding France)	23	24	23
United States	18	19	17
Japan	11	11	11
Asia (excluding Japan)	31	29	32
Other markets	8	8	8
Total	**100**	**100**	**100**
Type of revenue as a percentage of total revenue (excluding Louis Vuitton and Christian Dior Couture)			
Retail	67	64	64
Wholesale	32	35	35
Licenses	1	1	1
Total	**100**	**100**	**100**
Profit from recurring operations *(EUR millions)*	**5,943**	**4,905**	**3,873**
Operating margin *(%)*	**32.2**	**31.7**	**30.3**
Operating investments of the period *(EUR millions)*	**827**	**563**	**506**
Number of stores	**1,852**	**1,769**[(a)]	**1,772**[(b)]

(a) Including 198 stores for Christian Dior Couture and 57 for Rimowa.
(b) Excluding Rimowa, whose network was integrated in 2017.

Highlights

The Fashion and Leather Goods business group achieved organic revenue growth of 15% in 2018.

Louis Vuitton's excellent performance was driven by its momentum in all its creative areas, and reflected an ideal balance between the vitality of its iconic product lines and the contribution of fresh new designs. Opening a new chapter for its Menswear collections, Virgil Abloh's first runway show in June was met with an enthusiastic welcome. Continuing a longstanding tradition of artistic friendships, the collaboration between Creative Director of Womenswear Nicolas Ghesquière and stylist Grace Coddington featured a playful assortment of animals across a collection of handbags, accessories and footwear. In leather goods, a new line – *New Wave* – made its debut, and the iconic *Twist*, *Capucines* and *Néonoé* models were revisited. The first Louis Vuitton fragrances for men were launched, while the women's perfume collection was expanded. With the launch of its most recent creation, *Attrape-Rêves*, actress Emma Stone became the star of Louis Vuitton's first fragrance film. In its constant quest to offer its customers unique experiences, the Maison continued enhancing the quality of its retail network, renovating its South Coast Plaza store in California and inaugurating a boutique inside Paris' Charles de Gaulle airport. Pop-up stores were also opened in several cities around the world. To meet high demand for its products, Louis Vuitton opened a new workshop in the Vendée department of western France in 2018. In October, the Maison was awarded the Butterfly Mark by Positive Luxury for its commitment to excellence in the field of environmental and social responsibility. Continuing its worldwide tour, the "Volez, Voguez, Voyagez" exhibition touched down in Shanghai at the end of the year.

For its first full year as part of the LVMH group, **Christian Dior Couture** turned in a remarkable performance in all its product categories and all its regions, and enhanced its appeal worldwide. Dior's excellence and creativity were on display, particularly at the runway shows for Maria Grazia Chiuri's womenswear collections: the highly acclaimed Spring/Summer 2018 Haute Couture show, an ode to surrealism, was followed by an extraordinary masked ball in the gardens of the Rodin Museum; the Cruise show was held at the Domaine de Chantilly, with a spectacular performance by traditional female equestrians from Mexico; the Spring/Summer 2019 Ready-to-Wear collection was accompanied by a poetic ballet of contemporary dance. In June 2018, the new Creative Director of Menswear Kim Jones had his runway debut with the Spring/Summer 2019 show, held in the courtyard of the French Republican Guard in Paris, which was a resounding success, as was the Fall 2019 show held in Tokyo in November 2018. Dior's iconic Toile de Jouy design embellished the imposing facades of its largest boutiques. In another first, the *Dior Dior Dior* high jewelry collection was exhibited at the City of Paris' Museum of Modern Art during Couture Week, and was a great success.

Fendi continued to reaffirm its creativity and expertise through its ready-to-wear, handbag and footwear collections, as well as its Couture runway show in Paris, designed by Karl Lagerfeld and Silvia Fendi. The iconic *Peekaboo* handbag was showcased in an innovative digital marketing campaign, while two capsule collections – *FF Reloaded* and *Fendi Mania* – were launched, expressing a highly contemporary side of the brand. Fendi reinforced its retail network and reaffirmed its commitment to preserving expertise with an exhibition in Rome and strong involvement in LVMH's Institut des Métiers d'Excellence.

Growth at **Loro Piana** was driven in particular by the success of its recent *Gift of Kings* collection, made from the world's finest wool, an emblem of the excellence of the raw materials sourced by the company. Its *Baby Cashmere*, another exceptional material, celebrated its 10th anniversary at a series of pop-up stores around the world. Footwear turned in an excellent performance. The brand focused on developing women's ready-to-wear and the customer experience in a network of stores whose expansion remained selective.

Celine's momentum remained strong, driven by the ongoing success of its leather goods lines. It embarked on a new phase in its development with the arrival of Hedi Slimane as Artistic, Creative and Image Director. In September, his first runway show was a great success and had a huge impact in the fashion world.

Givenchy was boosted by the success of Clare Waight Keller's first collections, available in boutiques starting in February. The design of the Duchess of Sussex's wedding gown substantially raised its brand exposure. Clare Waight Keller's talent was recognized several times throughout the year, particularly at the British Fashion Awards. A flagship boutique was inaugurated on New Bond Street in London.

Under the leadership of its Creative Director Jonathan Anderson, **Loewe** achieved very strong momentum, with the success of its new *Gate* line of leather goods and rapid growth in ready-to-wear. A wide range of gifts was on offer at the end of the year. The brand continued to selectively expand and improve its network of stores.

Kenzo's casual urban offering was expanded, with Menswear performing especially well. Women's ready-to-wear reaffirmed the balance sought between modernity and desirability. One of the year's highlights was a significant geographic expansion, with the brand opening boutiques and inaugurating its digital presence in the United States, and resuming retail operations in China and Macao.

Berluti achieved strong performance and expanded its retail network. All product categories posted growth, especially exceptional items such as tailored footwear, exotic leathers and special orders. The *Zero Cut* shoe, crafted from a single piece of leather, expresses the quintessence of Berluti's shoemaking expertise. The year was marked by the arrival of Kris Van Assche as its new Artistic Director.

Marc Jacobs continued to reorganize and to develop its product lines. Its *Snapshot* leather goods line saw rapid growth. A pop-up store was opened on Madison Avenue in New York to mark the launch of the *Redux Grunge Collection 1993/2018* capsule collection.

Rimowa continued its collaborations to design limited-edition suitcases. The collections designed together with streetwear brand Supreme and Off-White, Virgil Abloh's label, were very well received and enhanced Rimowa's appeal. The brand celebrated its 120th anniversary and launched its first global marketing campaign.

Thomas Pink revised its visual identity and became Pink Shirtmaker London.

Outlook

Louis Vuitton will keep building its growth on its creative momentum and its unique traditional craftsmanship. In terms of products, high-profile initiatives will be launched in all businesses. Plans are underway for a number of emblematic stores. Campaigns and events connected with Louis Vuitton's business highlights will support these developments. The Maison will continue to reinforce its production capacity with the opening of a new workshop in Beaulieu-sur-Layon in the Maine-et-Loire department of western France in early 2019.

Christian Dior Couture has set itself ever more ambitious targets for the months ahead. Creativity, innovation and expertise will continue to fuel its business, and several high-impact events in key markets will increase the brand's international reach.

Fendi plans to step up the pace of its growth, with a number of product launches in the coming months and strong performance in ready-to-wear collections as well as the expansion of its leather goods offering. The first highlight of the year will involve a refocus on its iconic *Baguette* handbag. At **Celine**, its new designer's first ready-to-wear collections will debut in boutiques in the first half of the year, marking the beginning of the rollout of its new store concept. All of the business group's brands will maintain their focus on creativity in their collections and achieving excellence with respect to products, retail and the customer experience. The continued selective expansion of their boutique networks will go hand in hand with a stronger digital strategy and the development of online sales.

4. PERFUMES AND COSMETICS

	2018	2017	2016
Revenue *(EUR millions)*	**6,092**	**5,560**	**4,953**
Revenue by product category *(%)*			
Perfumes	35	36	38
Makeup	47	47	44
Skincare products	18	17	18
Total	**100**	**100**	**100**
Revenue by geographic region of delivery *(%)*			
France	11	11	12
Europe (excluding France)	22	24	25
United States	16	17	18
Japan	5	5	5
Asia (excluding Japan)	35	30	28
Other markets	11	13	12
Total	**100**	**100**	**100**
Profit from recurring operations *(EUR millions)*	**676**	**600**	**551**
Operating margin *(%)*	**11.1**	**10.8**	**11.1**
Operating investments of the period *(EUR millions)*	**330**	**286**	**268**
Number of stores	**354**	**302**	**248**

Driven in large part by the performance of its flagship brands, the Perfumes and Cosmetics business group recorded strong growth, which was particularly high in Asia. Reflecting the creativity and commitment to excellence of its different brands, all product categories contributed to this growth.

Highlights

Parfums Christian Dior had another excellent year and gained market share, underscoring the vitality of its iconic fragrances and the success of its innovations. *J'adore*, boosted by a new marketing campaign, made further progress and *Miss Dior* established its leadership in Asia. Men's fragrance *Sauvage*, which had an Eau de Parfum version added to its range, saw exceptional growth. With the launch of *Joy by Dior*, embodied by actress Jennifer Lawrence, the brand added a fresh new scent to its olfactory landscape. The Maison Christian Dior boutique concept, offering a collection of exceptional fragrances, confirmed its appeal with excellent results. Parfums Christian Dior showcased its roots in Grasse; a source of inspiration and a creative hub (with Les Fontaines Parfumées, François Demachy's fragrance laboratory) as well as an exceptional terroir for its flowers used to make perfume. Guided by the creative vision of Peter Philips and backed by a strong digital marketing strategy, makeup consolidated its positions, with strong performance in the lip cosmetics segment, in particular the new *Ultra Rouge* lipstick, and a substantial acceleration in foundation fueled by new additions to the *Forever* range and the launch of the *Dior Backstage Face & Body Foundation* inspired by techniques used by makeup artists. Skincare was boosted by strong momentum in Asia and by the vitality and innovation of the *Prestige* range's *Micro-Huile de Rose* and *Micro-Sérum de Rose*. *Capture Youth*, launched in January 2018, won over customers in their thirties with its six targeted serums.

Guerlain turned in a remarkable performance. Perfume did very well, with the expansion of *Mon Guerlain* and the international rollout of Guerlain Parfumeur boutiques, which offer a captivating immersion in the perfume-maker's world. Momentum in makeup was driven by the highly successful *Rouge G*, which offers an unrivaled potential for customization, with 450 possible case and color combinations. In skincare, Guerlain's results were fueled by strong growth in its *Orchidée Impériale* and *Abeille Royale* lines. As part of its "In the Name of Beauty" commitment to sustainability, Guerlain continued to scale up its initiatives to preserve biodiversity, particularly to protect bees. During LVMH's Journées Particulières open-house event, Guerlain celebrated its 190th anniversary with the public by unveiling an exceptional setting at 68 Champs-Élysées, its iconic address.

Parfums Givenchy saw growth accelerate, with perfume doing very well in Europe and strong gains from makeup in Asia. The success of its new women's fragrance, *L'Interdit*, incarnated by actress Rooney Mara, helped the brand gain market share. Makeup sales were particularly strong in the lip cosmetics and foundation segments.

Kenzo Parfums continued to roll out *Kenzo World* and revisited its iconic *Flower by Kenzo* line with a new marketing campaign filmed in the streets of San Francisco. With the highly successful launch of *BADgal BANG!*, **Benefit** became the global market leader in mascara. The brand also consolidated its lead in the brow segment with the success of *Brow Contour*, an innovative 4-in-1 brow pencil. **Make Up For Ever** continued its international development, particularly thanks to the expansion of its online sales. **Fresh** achieved strong growth, particularly in Asia, with the success of its *Rose* and *Black Tea* skincare lines. This range was enriched by its *Black Tea Kombucha* age-delay facial essence, maintaining its focus on offering a unique sensory experience through a fusion of effective natural ingredients, traditional rituals and modern science. **Acqua di Parma** saw strong growth in its *Colonia* lines, thanks to *Colonia Pura* in particular, while the *Chinotto di Liguria* fragrance rounded out the *Blu Mediterraneo* range. For its first full year of activity, **Fenty Beauty by Rihanna** confirmed its worldwide success with a very strong digital presence and a robust innovation program in the foundation and lip cosmetics segment with the *Mattemoiselle* lipstick. **Marc Jacobs Beauty**'s momentum was driven by the launch of its new *Shameless* liquid foundation. **Parfums Loewe** launched the women's version of its *Solo Loewe* line. **Maison Francis Kurkdjian** enjoyed very strong growth in its iconic *Baccarat Rouge 540* fragrance and continued to showcase its exceptional expertise in artisanal perfume-making.

Outlook

In a highly competitive market environment, the Perfumes and Cosmetics business group will draw on the strength of its well-differentiated brand portfolio to win new market share. Its brands will focus on gaining innovative momentum, retail quality and digital marketing. **Parfums Christian Dior** will innovate in its three product categories. In perfume, the brand will continue to showcase its global pillars, with strong marketing support in conjunction with Couture, and will accelerate the rollout of its Maison Christian Dior boutique concept as well as its initiatives to build a unique customer experience around perfume, both in-store and online. Drawing on the expertise of professional makeup artists and the brand's couture spirit, makeup will be the focus of an extensive innovation plan, backed by a bolstered digital activation strategy. Dior skincare – which aims to accelerate the brand's growth in the premium and anti-aging segments – will be boosted by momentum in Asia. **Guerlain** will continue rolling out its Guerlain Parfumeur boutiques; expand its flagship makeup and skincare ranges; and launch a high-performance, highly natural foundation, in line with its "In the Name of Beauty" commitment to sustainability. A new version of its *L'Interdit* fragrance and bold innovations in makeup will help speed up growth at **Parfums Givenchy**. **Benefit**'s initiatives will mainly focus on brow products, to consolidate its lead in this category, and on conveying its unique positioning, particularly in the digital realm. **Kenzo** will launch a light eau de parfum version of *Flower by Kenzo* and a new variant of *Kenzo World*. **Parfums Loewe** will roll out its fresh new brand identity, backed by a groundbreaking marketing campaign strengthening its ties with the world of couture. **Fenty Beauty by Rihanna** will continue its international expansion, particularly in Asia.

5. WATCHES AND JEWELRY

	2018	2017	2016
Revenue *(EUR millions)*	**4,123**	**3,805**	**3,468**
Revenue by geographic region of delivery *(%)*			
France	6	6	5
Europe (excluding France)	23	25	26
United States	9	9	10
Japan	12	13	14
Asia (excluding Japan)	35	31	28
Other markets	15	16	17
Total	**100**	**100**	**100**
Profit from recurring operations *(EUR millions)*	**703**	**512**	**458**
Operating margin *(%)*	**17.1**	**13.5**	**13.2**
Operating investments of the period *(EUR millions)*	**303**	**269**	**229**
Number of stores	**428**	**405**	**391**

Highlights

Growth for the Watches and Jewelry business group was once again driven by the creativity of its brands and the strong performance delivered by their stores. Jewelry showed remarkable momentum and gained market share. In a market environment that remained challenging, the watch business grew thanks to the strength of its brands' flagship lines and the excellence of their innovations.

Bvlgari had a very good year and continued to gain market share. Jewelry was spurred by its strong creative momentum. The *Serpenti*, *B.Zero1* and *Diva's Dream* lines were enriched with new models, and the launch of the *Fiorever* collection, designed around a central diamond and white gold, is set to become a new pillar in a segment that remains largely unexplored by the brand. The *Wild Pop* high jewelry collection, which embodies Bvlgari's modernity and expertise, continued its rollout. In watches, the new *Lucea*, *Serpenti Turbogas*, and *Diva's Dream* timepieces were highly successful, and the favorable reception of the new *Octo Finissimo* models confirmed the iconic potential of this men's line. Momentum in leather goods was driven by the *Serpenti Forever* and *Black Glam* models. The store improvement plan continued, with reopenings in Hong Kong and Milan, while new boutiques were opened in locations including Boston and Saint Petersburg. Bvlgari also continued its pop-up store program, which rounds out and energizes the network. Development in the luxury hotel sector continued with the inauguration of a new *Bvlgari Hotels & Resorts* location in Shanghai. The "Tribute to Femininity" exhibition at the Moscow Kremlin Museums presented over 500 exceptional pieces of jewelry showcasing the brand's heritage, wealth of inspiration, visionary creativity and refined craftsmanship.

TAG Heuer continued expanding its flagship *Carrera*, *Aquaracer* and *Formula 1* lines. Its catalogue was enriched with the limited editions of the *Monaco Bamford* and *Carrera Fujiwara* models, while a 42 mm version of the smartwatch proved a successful addition to the range. Other highlights of the year included the opening of a flagship store on Fifth Avenue in New York and a modular smart boutique, faithful to the brand's avant-garde spirit, in Tokyo's Ginza district. TAG Heuer's team of brand ambassadors, its sports and cultural contracts, and its very active social media presence have helped raise its profile among target customers.

Hublot continued its robust growth, driven by its *Classic Fusion* and *Big Bang* lines, with *Spirit of Big Bang* – now the brand's third core collection – also contributing to its success. Hublot once again demonstrated its creativity by releasing a range of extraordinary and highly technical models, including the *Meca-10 Ceramic Blue* and the *Classic Fusion Aerofusion Orlinski* designed in collaboration with French sculptor Richard Orlinski. New stores were opened in London and Geneva, and a boutique was acquired in Beverly Hills. A marketing strategy combining prestigious partnerships, events and a strong digital presence helped raise the brand's profile. Special emphasis was placed on the 2018 soccer World Cup, including the launch of Hublot's first smartwatch, the *Big Bang Referee 2018*. The young soccer star Kylian Mbappé joined the brand's network of ambassadors.

While continuing to develop its iconic *Chronomaster*, *Elite* and *Pilot* collections, **Zenith** completed the launch of its *Defy* line. The brand's revolutionary *El Primero 21* model, which measures time down to the hundredth of a second, proved highly successful. Zenith continued to consolidate its organization while leveraging synergies offered by the Group's other watchmaking brands.

Growth at **Chaumet** was fueled by the successful *Liens* and *Joséphine* collections, along with its ongoing shift further upmarket, particularly in China. Its flagship lines were enriched by *Liens Séduction* designs, *Liens Evidence* bracelets and new *Joséphine Aigrette* rings. The brand expressed its exceptional creativity in high jewelry by launching its *Les Mondes de Chaumet* collection, made up of three chapters: *Promenades Impériales*, *Chant du Printemps* and *Trésors d'Afrique*. The success of the Mitsubishi Ichigokan Museum's exhibition on Chaumet's culture and history increased brand awareness in Japan. The store network continued to expand, particularly in Asia.

Fred's *Force 10* line and its new *8°0* collection were its main growth drivers. It opened new stores in Tokyo, Macao, Saint-Tropez and Busan in South Korea.

Outlook

By constantly monitoring markets and remaining highly selective in its allocation of resources, the Watches and Jewelry business group is actively pursuing its market share growth target. This ambition is based on sustaining its key growth drivers: the exceptional creativity of its brands, combined with their constant pursuit of perfection in iconic lines and new collections alike; consolidating their world-class craftsmanship and technological leadership through investments in production capacity; precisely targeted marketing campaigns, especially in the digital realm, to raise the watches and jewelry brands' profiles in key regions; and lastly, improvements in the quality, productivity and profitability of retail networks, which remain a top priority. **Bvlgari** will continue to expand its network, with the opening of a flagship store in Paris on the Avenue des Champs-Élysées, the expansion of its boutique on Place Vendôme, and selective renovations and openings in Asia and the United States. The flagship *B.Zero1* line will celebrate its 20th anniversary. **TAG Heuer** plans to open stores in China and Hong Kong. **Chaumet** will continue rolling out its new store concept, with projects that will raise brand awareness in Europe.

6. SELECTIVE RETAILING

	2018	2017	2016
Revenue *(EUR millions)*	**13,646**	**13,311**	**11,973**
Revenue by geographic region of delivery *(%)*			
France	12	12	12
Europe (excluding France)	9	8	8
United States	38	39	41
Japan	2	1	1
Asia (excluding Japan)	27	28	27
Other markets	12	12	11
Total	**100**	**100**	**100**
Profit from recurring operations *(EUR millions)*	**1,382**	**1,075**	**919**
Operating margin *(%)*	**10.1**	**8.1**	**7.7**
Operating investments of the period *(EUR millions)*	**537**	**570**	**558**
Number of stores			
Sephora	1,886	1,825	1,726
Other trade names	54	55	52

Highlights

All of the Group's Selective Retailing brands showed strong momentum, helping the business group achieve organic revenue growth of 6% in 2018. Excluding the impact of the termination of DFS's airport concessions in Hong Kong at the end of 2017, this growth came to 12%.

Sephora saw another year of strong growth – especially in North America, Asia and the Middle East – and gained market share. Sephora – which connects with its customers through more than 1,900 stores and 29 online shops, and is present in 34 countries – was named Retailer of the Year at the 2018 World Retail Congress, recognizing its global success, its innovative momentum and its lead in the digital sphere. Sephora continued its expansion with the opening of more than 100 stores worldwide, including superb locations on Nanjing Road in Shanghai, Zeil in Frankfurt and at the Saint-Lazare train station in Paris; the launch of online sales in Germany; the new version of the completely redesigned sephora.fr website; and a dazzling array of digital innovation on the sephora.cn website. The brand successfully oversaw the opening of its first points of sale under the Sephora trade name in Russia and the renovation of its iconic stores in SoHo (New York) and Milan's Duomo district (Italy). It continued to personalize the customer experience as part of its ongoing quest to captivate and satisfy beauty fans around the world. Thanks to its dedicated staff, Sephora's boutiques offer beauty and makeup services that are constantly being updated, based around its *Beauty Hubs*, as well as a plethora of experiences available throughout the store. In addition, across its entire digital ecosystem, interactive mobile app features let users extend the in-store experience and connect with its community of self-proclaimed beauty addicts. This personalized, omnichannel relationship helps provide bespoke support to each and every one of its customers as they discover the iconic brands, wide range of new products and highly innovative exclusive collections that make up the Sephora offering.

Amidst an upturn in its markets, **DFS** saw strong revenue growth, buoyed by sales initiatives launched to win over international travelers, including high-impact marketing campaigns, in-store events and the introduction of new communication tools. It expanded its selection of products to meet the expectations of younger, more exacting travelers while showcasing the uniqueness of each destination. While major renovation work was completed in Sydney and Auckland, DFS continued to expand its presence in Macao with the opening of two boutiques devoted to beauty, bringing its store count to six in the city. A multi-brand fashion boutique designed to attract a millennial clientele was also inaugurated within the *T Galleria* City of Dreams. In Venice, the *T Fondaco dei Tedeschi* store turned in an excellent performance, boosted by a year-round program of events that make it an unrivaled venue for shopping and culture. The Siem Reap *T Galleria* in Cambodia also enjoyed strong momentum, with an offering that showcased the quality of local craftsmanship alongside luxury products.

Starboard Cruise Services maintained its position as the leading retailer of high-end brands on board cruise ships by expanding its presence in Asia. It further enhanced the appeal of its stores while improving the quality of its product offerings and the experiences it offers its customers.

Le Bon Marché continued on its strong growth trajectory during a very eventful year. The refinement, quality of service and selectivity on offer at the iconic department store on Paris' Left Bank continued to place it a cut above the rest for its French and international clientele, and its loyalty program was highly successful. The new children's department – the renovation of which was completed in the second half of the year – introduced "Les Récrés du Bon Marché", an ingenious new concept which is the first of its kind among department stores: fun workshops for children of all ages to enjoy while their parents shop in peace. Event highlights included the substantial media coverage of the exhibition of works by Argentinian artist Leandro Erlich in the beginning of the year, and the major success of the Los Angeles exhibition in the fall. La Grande Épicerie de Paris Rive Droite, which opened in late 2017, won over a new clientele. The 24 Sèvres digital platform continued its targeted growth, enriching its range with exclusive offerings including a capsule collection in collaboration with designer Inès de la Fressange.

Outlook

In 2019, **Sephora** will continue to design and offer its customers the best omnichannel experience in the beauty world, while maintaining its focus on its core strengths: its dedicated, professional staff; the expansion and renovation of its store network; its rich, innovative range of products and services; and its desire to keep surprising its customers and give them an ever more personalized connection at its stores and throughout its digital ecosystem. **DFS** enters 2019 with confidence, while remaining vigilant to the key issues inherent in its business segment, such as currency fluctuations and potential changes in the sales environment. Work is underway to expand and enhance the flagship store on Canton Road in Hong Kong and to renovate the Four Seasons Hotel Macao store. The brand will expand its store network, particularly in Asia, and step up its digital initiatives to better serve travelers. **Le Bon Marché** will continue to cultivate its uniqueness, its creative and exclusive offerings, and its dual identity as both a trendsetting retail destination and a venue for art and culture. The opening of a VIP lounge will round out the range of perks available to its customers. La Grande Épicerie de Paris will keep working to enhance its appeal and build customer loyalty on both sides of the Seine.

7. COMMENTS ON THE CONSOLIDATED BALANCE SHEET

7.1 Restatements in the balance sheet as of December 31, 2017

The balance sheet as of December 31, 2017 has been restated to reflect:

- the impact of the retrospective application of IFRS 9 Financial Instruments as of January 1, 2016: see Note 1.2 to the condensed consolidated financial statements;
- the impact of the definitive allocation of the purchase price of Christian Dior Couture, acquired in 2017: see Note 2 to the condensed consolidated financial statements.

7.2 Balance sheet as of December 31, 2018

(EUR billions)	Dec. 31, 2018	Dec. 31, 2017	Change
Property, plant and equipment and intangible assets	46.1	44.7	1.4
Other non-current assets	4.6	4.0	0.6
Non-current assets	**50.7**	**48.7**	**2.0**
Inventories	12.5	10.9	1.6
Other current assets	11.1	10.2	0.9
Current assets	**23.6**	**21.1**	**2.5**
Assets	**74.3**	**69.8**	**4.5**

(EUR billions)	Dec. 31, 2018	Dec. 31, 2017	Change
Equity	34.0	30.4	3.6
Long-term borrowings	6.0	7.0	(1.0)
Other non-current liabilities	17.5	17.4	0.1
Equity and non-current liabilities	**57.5**	**54.8**	**2.7**
Short-term borrowings	5.0	4.5	0.5
Other current liabilities	11.8	10.5	1.3
Current liabilities	**16.8**	**15.0**	**1.8**
Liabilities and equity	**74.3**	**69.8**	**4.5**

LVMH's consolidated balance sheet totaled 74.3 billion euros as of year-end 2018, representing a 7% increase from year-end 2017. Non-current assets rose by 2.0 billion euros and represented 68% of total assets, compared with 70% as of year-end 2017.

Property, plant and equipment and intangible assets grew by 1.4 billion euros, including 1.0 billion euros related to investments made during the year, net of depreciation and amortization charges as well as disposals. The comments on the cash flow statement provide information on the year's investments. Exchange rate fluctuations – mainly involving the US dollar and the Swiss franc – had an additional positive 0.4 billion euro impact on the value of property, plant and equipment and intangible assets.

Other non-current assets increased by 0.6 billion euros, amounting to 4.6 billion euros. This increase was related to purchases of non-current available for sale financial assets, for 0.4 billion euros (in particular Belmond shares, for 0.3 billion euros), and to the increase in deferred tax assets, for 0.2 billion euros.

Inventories increased by 1.6 billion euros, with 1.7 billion euros related to changes in levels of business activity (discussed in further detail in the comments on the cash flow statement), and 0.1 billion euros resulting from exchange rate fluctuations, mainly involving the US dollar. Conversely, net provisions for inventory impairment had a negative impact of 0.3 billion euros.

Other current assets grew by 0.9 billion euros, including 0.9 billion euros related to the increase in the cash balance, 0.5 billion euros resulting from an increase in trade accounts receivable, and 0.2 billion euros related to the increase in current available for sale financial assets. Conversely, income tax receivables and the market value of derivatives decreased by 0.4 billion euros each.

Other non-current liabilities remained stable, totaling 17.5 billion euros versus 17.4 billion euros in 2017, with this 0.1 billion euro increase arising from the fair value adjustment of purchase commitments for minority interests' shares.

Other current liabilities increased by 1.3 billion euros, amounting to 11.8 billion euros, of which 1.3 billion euros related to the increase in trade accounts payable and other operating payables, and 0.2 billion euros to the rise in tax and social security liabilities. Conversely, income tax payable decreased by 0.2 billion euros.

Net financial debt and equity

(EUR billions or as %)	Dec. 31, 2018	Dec. 31, 2017	Change
Long-term borrowings	6.0	7.0	(1.0)
Short-term borrowings and derivatives	5.2	4.5	0.7
Gross borrowings after derivatives	**11.2**	**11.5**	**(0.3)**
Cash, cash equivalents and other[(a)]	(5.7)	(4.3)	(1.4)
Adjusted net financial debt (excluding the acquisition of Belmond shares)	**5.5**	**7.2**	**(1.7)**
Equity	**34.0**	**30.4**	**3.6**
Adjusted net financial debt/Equity ratio	**16.2%**	**23.7%**	**-7.5 pts**

(a) The adjusted net financial debt (excluding the acquisition of Belmond shares) presented above helps show the impact of the Group's performance in 2018 on the level of net financial debt at the balance sheet date. See Note 18 to the condensed consolidated financial statements.

The ratio of (adjusted) net financial debt to equity, which was 23.7% as of December 31, 2017, fell 7.5 points to 16.2%; cash generated during the fiscal year helped to substantially reduce net debt by 1.7 billion euros.

Total equity amounted to 34.0 billion euros as of year-end 2018, up 3.6 billion euros compared to year-end 2017. This change primarily reflects the strong earnings achieved by the Group, distributed only partially, representing a net increase of 3.9 billion euros. Exchange rate fluctuations had a positive impact of 0.2 billion euros, mainly related to the appreciation of the US dollar and the Swiss franc against the euro between December 31, 2017 and December 31, 2018. Conversely, the change in revaluation reserves had a negative impact of 0.2 billion euros, mainly due to the decrease in unrealized gains on hedges of future foreign currency cash flows. The impact of changes in purchase commitments for minority interests' shares was also negative, for 0.3 billion euros. As of December 31, 2018, total equity was equal to 46% of total assets, compared to 44% as of year-end 2017.

Gross borrowings after derivatives totaled 11.2 billion euros as of year-end 2018, down 0.3 billion euros compared with year-end 2017, including the negative 0.6 billion euro impact of net repayments made during the fiscal year; this decrease was partially offset by fair value adjustments of borrowings and derivatives, which had a positive 0.3 billion euro impact. During the fiscal year, repayment of borrowings had a negative impact of 2.1 billion euros, including 1.8 billion euros for the repayment of a tranche of the bond issue completed in 2017 following the acquisition of Christian Dior Couture. Conversely, commercial paper outstanding increased by 1.3 billion euros in 2018. No bonds were issued during the fiscal year.

Cash, cash equivalents, current and non-current available for sale financial assets used to hedge financial debt, and the Belmond shares acquired in December 2018 after the announcement of LVMH's acquisition of Belmond totaled 5.7 billion euros at the end of the fiscal year, up 1.4 billion euros compared to year-end 2017.

As of year-end 2018, the Group's undrawn confirmed credit lines amounted to 3.9 billion euros, exceeding the outstanding portion of its commercial paper program, which came to 3.2 billion euros as of December 31, 2018.

8. COMMENTS ON THE CONSOLIDATED CASH FLOW STATEMENT

8.1 Restatements in the consolidated cash flow statement as of December 31, 2017

The consolidated cash flow statement as of December 31, 2017 has been restated to reflect:

- the impact of the retrospective application of IFRS 9 Financial Instruments as of January 1, 2016: see Note 1.2 to the condensed consolidated financial statements;
- the impact of the definitive allocation of the purchase price of Christian Dior Couture, acquired in 2017: see Note 2 to the condensed consolidated financial statements.

8.2 Cash flow statement as of December 31, 2018

(EUR millions)	Dec. 31, 2018	Dec. 31, 2017	Change
Cash from operations before changes in working capital	**11,965**	**10,405**	**1,560**
Cost of net financial debt: interest paid	(113)	(129)	16
Income taxes paid	(2,275)	(2,790)	515
Net cash from operating activities before changes in working capital	**9,577**	**7,486**	**2,091**
Change in working capital	(1,087)	(514)	(573)
Operating investments	(3,038)	(2,276)	(762)
Free cash flow	**5,452**	**4,696**	**756**
Financial investments	**(401)**	**(6,331)**	**5,930**
Transactions relating to equity	**(3,531)**	**(2,105)**	**(1,426)**
Change in cash before financing activities	**1,520**	**(3,740)**	**5,260**

Cash from operations before changes in working capital totaled 11,965 million euros, up 15% from 10,405 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 9,577 million euros, up 28% from fiscal year 2017.

Interest paid, for 113 million euros, was lower than in 2017, with the favorable impact of the decrease in the Group's average interest rate outweighing the unfavorable impact of the increase in the Group's average net debt with respect to 2017.

Income taxes paid came to 2,275 million euros, 18% less than the 2,790 million euros paid a year earlier, reflecting the downward trend in corporate tax rates worldwide, particularly in the United States, and the non recurrence of certain exceptional tax rates.

The 1,087 million euro increase in the working capital requirement was higher than the 514 million euro increase observed a year earlier. The cash requirement relating to the increase in inventories amounted to 1,722 million euros, versus 1,006 million euros a year earlier, mainly due to growth in the Fashion and Leather Goods and Selective Retailing businesses. The increase in trade account payables and tax and social security liabilities, which was higher in 2018 than in 2017 (806 million euros in 2018 versus 624 million euros in 2017) helped to partly finance the cash requirement related to the increase in inventories.

Operating investments net of disposals resulted in an outflow of 3,038 million euros in 2018, compared to 2,276 million euros a year earlier, up 762 million euros. These mainly included investments by the Group's brands – notably Sephora, Louis Vuitton, DFS, Parfums Christian Dior, Bvlgari and Christian Dior Couture – in their retail networks. They also included investments by the champagne houses, Hennessy, Louis Vuitton and Parfums Christian Dior in their production equipment; investments related to the La Samaritaine and Jardin d'Acclimatation projects; and various real estate investments.

In 2018, 401 million euros were spent on financial investments, including 274 million euros relating to the acquisition of Belmond shares in late December 2018, after the announcement of LVMH's acquisition of Belmond.

Transactions relating to equity generated an outflow of 3,531 million euros. A portion of this amount, 2,714 million euros, related to dividends paid during the fiscal year by LVMH SE, excluding the amount attributable to treasury shares, of which 1,717 million euros were for the final dividend payment in respect of fiscal year 2017 and 997 million euros were for the interim dividend payment in respect of fiscal year 2018. Dividends paid out to minority shareholders of consolidated subsidiaries amounted to 339 million euros and acquisitions of minority interests generated an outflow of 236 million euros (see Note 2 to the condensed consolidated financial statements). Acquisitions of LVMH treasury shares generated an additional outflow of 295 million euros, while share subscription options exercised and capital increases subscribed by minority interests generated an inflow of 90 million euros.

The cash surplus after all transactions relating to operating activities, investments and equity thus totaled 1,520 million euros, of which 792 million euros were used to pay down the Group's debt. As the change in the cumulative translation adjustment relating to cash flows had a positive impact of 67 million euros, the cash balance at the fiscal year-end was 795 million euros higher than its level as of year-end 2017.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

(EUR millions, except for earnings per share)	Notes	**2018**	**2017** (1)(2)	**2016** (1)
Revenue	23	**46,826**	**42,636**	**37,600**
Cost of sales		(15,625)	(14,783)	(13,039)
Gross margin		**31,201**	**27,853**	**24,561**
Marketing and selling expenses		(17,755)	(16,395)	(14,607)
General and administrative expenses		(3,466)	(3,162)	(2,931)
Income/(loss) from joint ventures and associates	7	23	(3)	3
Profit from recurring operations	23-24	**10,003**	**8,293**	**7,026**
Other operating income and expenses	25	(126)	(180)	(122)
Operating profit		**9,877**	**8,113**	**6,904**
Cost of net financial debt		(117)	(137)	(133)
Other financial income and expenses		(271)	78	(185)
Net financial income/(expense)	26	**(388)**	**(59)**	**(318)**
Income taxes	27	(2,499)	(2,214)	(2,133)
Net profit before minority interests		**6,990**	**5,840**	**4,453**
Minority interests	17	(636)	(475)	(387)
Net profit, Group share		**6,354**	**5,365**	**4,066**
Basic Group share of net earnings per share *(EUR)*	28	**12.64**	**10.68**	**8.08**
Number of shares on which the calculation is based		502,825,461	502,412,694	502,911,125
Diluted Group share of net earnings per share *(EUR)*	28	**12.61**	**10.64**	**8.06**
Number of shares on which the calculation is based		503,918,140	504,010,291	504,640,459

(1) The financial statements as of December 31, 2017 and December 31, 2016 have been restated to reflect the retrospective application with effect from January 1, 2016 of IFRS 9 Financial Instruments. See Note 1.2.
(2) The financial statements as of December 31, 2017 have been restated to reflect the definitive allocation of the purchase price of Christian Dior Couture. See Note 2.

CONSOLIDATED STATEMENT OF COMPREHENSIVE GAINS AND LOSSES

(EUR millions)	Notes	2018	2017 [1][2]	2016 [1]
Net profit before minority interests		**6,990**	**5,840**	**4,453**
Translation adjustments		274	(958)	78
Amounts transferred to income statement		(1)	18	-
Tax impact		15	(49)	(9)
	15.4, 17	**288**	**(989)**	**69**
Change in value of hedges of future foreign currency cash flows		3	372	47
Amounts transferred to income statement		(279)	(104)	(26)
Tax impact		79	(77)	(1)
		(197)	**191**	**20**
Change in value of the cost of hedging instruments		(271)	(91)	(273)
Amounts transferred to income statement		148	210	180
Tax impact		31	(35)	24
		(92)	**84**	**(69)**
Gains and losses recognized in equity, transferable to income statement		**(1)**	**(714)**	**20**
Change in value of vineyard land	6	8	(35)	30
Amounts transferred to consolidated reserves		-	-	-
Tax impact		(2)	82	108
		6	**47**	**138**
Employee benefit commitments: change in value resulting from actuarial gains and losses		28	57	(88)
Tax impact		(5)	(24)	17
		23	**33**	**(71)**
Gains and losses recognized in equity, not transferable to income statement		**29**	**80**	**67**
Comprehensive income		**7,018**	**5,206**	**4,540**
Minority interests		(681)	(341)	(433)
Comprehensive income, Group share		**6,337**	**4,865**	**4,107**

(1) The financial statements as of December 31, 2017 and December 31, 2016 have been restated to reflect the retrospective application with effect from January 1, 2016 of IFRS 9 Financial Instruments. See Note 1.2.
(2) The financial statements as of December 31, 2017 have been restated to reflect the definitive allocation of the purchase price of Christian Dior Couture. See Note 2.

CONSOLIDATED BALANCE SHEET

ASSETS *(EUR millions)*	Notes	**2018**	**2017** [1][2]	**2016** [1]
Brands and other intangible assets	3	17,254	16,957	13,335
Goodwill	4	13,727	13,837	10,401
Property, plant and equipment	6	15,112	13,862	12,139
Investments in joint ventures and associates	7	638	639	770
Non-current available for sale financial assets	8	1,100	789	744
Other non-current assets	9	986	869	777
Deferred tax		1,932	1,741	2,053
Non-current assets		**50,749**	**48,694**	**40,219**
Inventories and work in progress	10	12,485	10,888	10,546
Trade accounts receivable	11	3,222	2,736	2,685
Income taxes		366	780	280
Other current assets	12	2,868	2,919	2,342
Cash and cash equivalents	14	4,610	3,738	3,544
Current assets		**23,551**	**21,061**	**19,397**
Total assets		**74,300**	**69,755**	**59,616**

LIABILITIES AND EQUITY *(EUR millions)*	Notes	**2018**	**2017** [1][2]	**2016** [1]
Share capital	15.1	152	152	152
Share premium account	15.1	2,298	2,614	2,601
Treasury shares and LVMH share-settled derivatives	15.2	(421)	(530)	(520)
Cumulative translation adjustment	15.4	573	354	1,165
Revaluation reserves		875	1,111	799
Other reserves		22,462	19,903	18,125
Net profit, Group share		6,354	5,365	4,066
Equity, Group share		32,293	28,969	26,388
Minority interests	17	1,664	1,408	1,510
Equity		**33,957**	**30,377**	**27,898**
Long-term borrowings	18	6,005	7,046	3,932
Non-current provisions	19	2,430	2,484	2,342
Deferred tax		5,036	4,989	4,137
Other non-current liabilities	20	10,039	9,870	8,497
Non-current liabilities		**23,510**	**24,389**	**18,908**
Short-term borrowings	18	5,027	4,530	3,447
Trade accounts payable	21.1	5,314	4,539	4,184
Income taxes		538	763	428
Current provisions	19	369	404	352
Other current liabilities	21.2	5,585	4,753	4,399
Current liabilities		**16,833**	**14,989**	**12,810**
Total liabilities and equity		**74,300**	**69,755**	**59,616**

(1) The financial statements as of December 31, 2017 and December 31, 2016 have been restated to reflect the retrospective application with effect from January 1, 2016 of IFRS 9 Financial Instruments. See Note 1.2.
(2) The financial statements as of December 31, 2017 have been restated to reflect the definitive allocation of the purchase price of Christian Dior Couture. See Note 2.

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 and cost of hedging instruments	Vineyard land	Employee benefit commit-ments		Group share	Minority interests	Total
Notes		15.1		15.2	15.4							17	
As of December 31, 2015	**507,139,110**	**152**	**2,579**	**(241)**	**1,137**	**103**	**(10)**	**965**	**(107)**	**19,762**	**24,340**	**1,460**	**25,800**
Impact of changes in accounting standards[1]	-	-	-	-	-	(103)	(61)	-	-	160	(4)	-	(4)
As of January 1, 2016, after restatement	**507,139,110**	**152**	**2,579**	**(241)**	**1,137**	**-**	**(71)**	**965**	**(107)**	**19,922**	**24,336**	**1,460**	**25,796**
Gains and losses recognized in equity					28	-	(44)	113	(56)	-	41	46	87
Net profit										4,066	4,066	387	4,453
Comprehensive income		**-**	**-**	**-**	**28**	**-**	**(44)**	**113**	**(56)**	**4,066**	**4,107**	**433**	**4,540**
Stock option plan and similar expenses										39	39	2	41
(Acquisition)/disposal of treasury shares and LVMH share-settled derivatives				(321)						(21)	(342)	-	(342)
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										(58)	(58)	(34)	(92)
Purchase commitments for minority interests' shares										58	58	(142)	(84)
As of December 31, 2016	**507,126,088**	**152**	**2,601**	**(520)**	**1,165**	**-**	**(115)**	**1,078**	**(163)**	**22,190**	**26,388**	**1,510**	**27,898**
Gains and losses recognized in equity					(811)		245	36	30	-	(500)	(134)	(634)
Net profit										5,365	5,365	475	5,840
Comprehensive income		**-**	**-**	**-**	**(811)**	**-**	**245**	**36**	**30**	**5,365**	**4,865**	**341**	**5,206**
Stock option plan and similar expenses										55	55	7	62
(Acquisition)/disposal of treasury shares and LVMH share-settled derivatives				(50)						(11)	(61)	-	(61)
Exercise of LVMH share subscription options	708,485		53								53	-	53
Retirement of LVMH shares	(791,977)		(40)	40							-	-	-
Capital increase in subsidiaries											-	44	44
Interim and final dividends paid										(2,110)	(2,110)	(261)	(2,371)
Changes in control of consolidated entities										(6)	(6)	114	108
Acquisition and disposal of minority interests' shares										(86)	(86)	(56)	(142)
Purchase commitments for minority interests' shares										(129)	(129)	(291)	(420)
As of December 31, 2017	**507,042,596**	**152**	**2,614**	**(530)**	**354**	**-**	**130**	**1,114**	**(133)**	**25,268**	**28,969**	**1,408**	**30,377**
Gains and losses recognized in equity					219	-	(259)	3	20	-	(17)	45	28
Net profit										6,354	6,354	636	6,990
Comprehensive income		**-**	**-**	**-**	**219**	**-**	**(259)**	**3**	**20**	**6,354**	**6,337**	**681**	**7,018**
Stock option plan and similar expenses										78	78	4	82
(Acquisition)/disposal of treasury shares and LVMH share-settled derivatives				(256)						(26)	(282)	-	(282)
Exercise of LVMH share subscription options	762,851		49							-	49	-	49
Retirement of LVMH shares	(2,775,952)		(365)	365						-	-	-	-
Capital increase in subsidiaries										-	-	50	50
Interim and final dividends paid										(2,715)	(2,715)	(345)	(3,060)
Changes in control of consolidated entities										(9)	(9)	41	32
Acquisition and disposal of minority interests' shares										(22)	(22)	(19)	(41)
Purchase commitments for minority interests' shares										(112)	(112)	(156)	(268)
As of December 31, 2018	**505,029,495**	**152**	**2,298**	**(421)**	**573**	**-**	**(129)**	**1,117**	**(113)**	**28,816**	**32,293**	**1,664**	**33,957**

(1) The financial statements as of December 31, 2017 and December 31, 2016 have been restated to reflect the retrospective application with effect from January 1, 2016 of IFRS 9 Financial Instruments. See Note 1.2.

CONSOLIDATED CASH FLOW STATEMENT

(EUR millions)	Notes	2018	2017 [1][2]	2016 [1]
I. OPERATING ACTIVITIES AND OPERATING INVESTMENTS				
Operating profit		9,877	8,113	6,904
Income/(loss) and dividends from joint ventures and associates	7	5	25	18
Net increase in depreciation, amortization and provisions		2,302	2,376	2,143
Other computed expenses		(141)	(43)	(177)
Other adjustments		(78)	(66)	(155)
Cash from operations before changes in working capital		**11,965**	**10,405**	**8,733**
Cost of net financial debt: interest paid		(113)	(129)	(122)
Tax paid		(2,275)	(2,790)	(1,923)
Net cash from operating activities before changes in working capital		**9,577**	**7,486**	**6,688**
Change in working capital	14.2	(1,087)	(514)	(512)
Net cash from operating activities		**8,490**	**6,972**	**6,176**
Operating investments	14.3	(3,038)	(2,276)	(2,265)
Net cash from operating activities and operating investments (free cash flow)		**5,452**	**4,696**	**3,911**
II. FINANCIAL INVESTMENTS				
Purchase of non-current available for sale financial assets [a]	8	(445)	(125)	(28)
Proceeds from sale of non-current available for sale financial assets	8	45	87	91
Dividends received		18	13	55
Tax paid related to non-current available for sale financial assets and consolidated investments		(2)	-	(461)
Impact of purchase and sale of consolidated investments	2	(17)	(6,306)	310
Net cash from (used in) financial investments		**(401)**	**(6,331)**	**(33)**
III. TRANSACTIONS RELATING TO EQUITY				
Capital increases of LVMH SE	15.1	49	53	64
Capital increases of subsidiaries subscribed by minority interests	17	41	44	41
Acquisition and disposals of treasury shares and LVMH share-settled derivatives	15.2	(295)	(67)	(352)
Interim and final dividends paid by LVMH SE	15.3	(2,715)	(2,110)	(1,859)
Tax paid related to interim and final dividends paid		(36)	388	(145)
Interim and final dividends paid to minority interests in consolidated subsidiaries	17	(339)	(260)	(267)
Purchase and proceeds from sale of minority interests	2	(236)	(153)	(95)
Net cash from (used in) transactions relating to equity		**(3,531)**	**(2,105)**	**(2,613)**
Change in cash before financing activities		**1,520**	**(3,740)**	**1,265**
IV. FINANCING ACTIVITIES				
Proceeds from borrowings	18.1	1,529	5,931	913
Repayment of borrowings	18.1	(2,174)	(1,760)	(2,181)
Purchase and proceeds from sale of current available for sale financial assets [a]	13	(147)	92	(104)
Net cash from (used in) financing activities	14.2	**(792)**	**4,263**	**(1,372)**
V. EFFECT OF EXCHANGE RATE CHANGES		**67**	**(242)**	**54**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (I+II+III+IV+V)		**795**	**281**	**(53)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	14.1	**3,618**	**3,337**	**3,390**
CASH AND CASH EQUIVALENTS AT END OF PERIOD	14.1	**4,413**	**3,618**	**3,337**
TOTAL TAX PAID		**(2,314)**	**(2,402)**	**(2,529)**

(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".

(1) The financial statements as of December 31, 2017 and December 31, 2016 have been restated to reflect the retrospective application with effect from January 1, 2016 of IFRS 9 Financial Instruments. See Note 1.2.

(2) The financial statements as of December 31, 2017 have been restated to reflect the definitive allocation of the purchase price of Christian Dior Couture. See Note 2.1.

SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The notes to the financial statements as of December 31, 2017 and December 31, 2016 have been restated to reflect the retrospective application with effect from January 1, 2016 of IFRS 9 Financial Instruments. See Note 1.2.
The notes to the financial statements as of December 31, 2017 have been restated to reflect the definitive allocation of the purchase price of Christian Dior Couture. See Note 2.

1. ACCOUNTING POLICIES

1.1 General framework and environment

The consolidated financial statements for the fiscal year ended December 31, 2018 were established in accordance with the international accounting standards and interpretations (IAS/IFRS) adopted by the European Union and applicable on December 31, 2018. These standards and interpretations have been applied consistently to the fiscal years presented. The consolidated financial statements for fiscal year 2018 were approved by the Board of Directors on January 29, 2019.

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 2018

IFRS 15 on revenue recognition was applied prospectively as of January 1, 2018. Its application did not have any significant impact on the Group's financial statements, due to the nature of the Group's business activities. Pursuant to IFRS 15, the provision for product returns, which was previously deducted from trade receivables (see Note 1.25), is now presented within "Other current liabilities" (see Note 21.2).

IFRS 9 on financial instruments was applied retrospectively with effect from January 1, 2016. The Group's financial statements for the comparative periods, including the Notes to these financial statements, were restated. The impact of the application of IFRS 9 within the Group is mainly related to the change in the method used to recognize the cost of hedging (option premiums and forward points associated with forward contracts) and in the revaluation at market value of available for sale financial assets.

The cost of hedging is now recognized as follows:

- for foreign exchange hedges that are commercial in nature, the changes in the value of forward points associated with forward contracts and in the time value component of options are included in gains and losses recognized directly in equity. The cost of the forward contracts (forward points) and of the options (premiums) is transferred to "Other financial income and expenses" upon realization of the hedged transaction;
- for hedges that are financial in nature or tied to the Group's investment portfolio, expenses and income arising from discounts or premiums are recognized in "Borrowing costs" on a pro rata basis over the term of the hedging instruments. The cash flow impact of expenses and income arising from forward points is presented under "Cost of net financial debt: interest paid". The difference between the amounts recognized in "Net financial income/(expense)" and the change in the market value of forward points is included in gains and losses recognized in equity. The market value of hedges that are financial in nature or tied to the Group's investment portfolio are now presented under "Net financial debt" (see Note 18).

The Group has opted to present the change in market value of available for sale financial assets under "Net financial income/(expense)" (within "Other financial income and expenses") for all shares held in the portfolio during the reported periods.

The following tables present the impact of the retrospective application of IFRS 9 on the Group's financial statements as of January 1, 2016; December 31, 2016; and December 31, 2017.

Impact on the balance sheet

(EUR millions)	**As of January 1, 2016**	**As of Dec. 31, 2016**	**As of Dec. 31, 2017**
Deferred tax	(4)	(5)	(2)
Total assets	**(4)**	**(5)**	**(2)**
Revaluation reserves, of which:	(165)	(249)	(362)
Available for sale financial assets	(104)	(125)	(311)
Ineffective portion of hedges	(61)	(124)	(51)
Other reserves	161	244	357
Equity, Group share	**(4)**	**(5)**	**(5)**
Minority interests		-	-
Equity	**(4)**	**(5)**	**(5)**
Deferred tax	-	-	3
Total liabilities and equity	**(4)**	**(5)**	**(2)**

Impact on the income statement

(EUR millions)	**As of Dec. 31, 2016**	**As of Dec. 31, 2017**
Borrowing costs	(66)	(58)
Income from cash, cash equivalents and current available for sale financial assets	-	-
Fair value adjustment of borrowings and interest rate hedges	16	(16)
Cost of net financial debt	**(50)**	**(74)**
Dividends received from non-current available for sale financial assets	-	-
Ineffective portion of foreign exchange derivatives	143	(44)
Net gain/(loss) related to available for sale financial assets and other financial instruments	22	241
Other items, net	-	-
Other financial income and expenses	**165**	**197**
Net financial income/(expense)	**115**	**123**
Income taxes	(24)	(22)
Net profit before minority interests	**91**	**101**
Minority interests	(6)	10
Net profit, Group share	**85**	**111**

Impact on the consolidated statement of comprehensive gains and losses

(EUR millions)	As of Dec. 31, 2016	As of Dec. 31, 2017
Net profit before minority interests	**91**	**101**
Change in value of available for sale financial assets	(18)	(274)
Amounts transferred to income statement	(4)	33
Tax impact	(1)	57
	(23)	**(184)**
Change in value of the ineffective portion of hedging instruments	(273)	(92)
Amounts transferred to income statement	180	210
Tax impact	24	(35)
	(69)	**83**
Gains and losses recognized in equity, transferable to income statement	**(92)**	**(101)**
Comprehensive income	**(1)**	**-**
Minority interests	2	(4)
Comprehensive income, Group share	**1**	**(4)**

Impact on the consolidated cash flow statement

(EUR millions)	As of Dec. 31, 2016	As of Dec. 31, 2017
Cost of net financial debt: interest paid	(63)	(58)
Net cash from operating activities and operating investments (free cash flow)	**(63)**	**(58)**
Net cash from/(used-in) financing activities	**(36)**	**187**
Effect of exchange rate changes	**99**	**(129)**

Other changes in the accounting framework and standards for which application will become mandatory later than January 1, 2019

At the end of 2016, the Group launched its project for the implementation of IFRS 16 relating to leases, which applies to accounting periods beginning on or after January 1, 2019. When entering into a lease involving fixed payments, this standard requires that a liability be recognized in the balance sheet, measured at the discounted present value of future lease payments and offset against a right-of-use asset amortized over the lease term.

IFRS 16 will be applied as of January 1, 2019, using what is known as the "modified retrospective" transition method, under which a liability is recognized at the transition date for an amount equal to the present value of the residual lease payments alone, offset against a right-of-use asset adjusted for the amount of prepaid lease payments or within accrued expenses; all the impacts of the transition will be deducted from equity. The standard provides for various simplification measures during the transition phase; in particular, the Group has opted to apply the measures allowing it to exclude leases with a residual term of less than twelve months, exclude leases of low-value assets, continue applying the same treatment to leases that qualify as finance leases under IAS 17, and not capitalize costs directly related to signing leases.

The amount of the liability depends quite heavily on the assumptions used for the lease term and discount rate. The lease term used to calculate the liability is the term of the initially negotiated lease, not taking into account any early termination or extension options, except in special circumstances. The discount rate is determined in the same way as the total of the risk-free rate for the lease currency, with respect to the lease term, and the Group's credit risk for this same reference currency and maturity.

The Group has implemented a dedicated IT solution to gather lease data and run the calculations required by the standard. The Group is in the process of completing its inventory of leases and gathering the information required to calculate the liability at the transition date. The impact on the balance sheet of the initial application of IFRS 16 will be between 11 and 13 billion euros, compared with 12.6 billion euros in lease commitments as of December 31, 2018 (see Note 30). Most leases are related to the Group's retail premises. Such leases are actively managed and directly linked to the conduct of Group companies' business and their distribution strategy.

If the modified retrospective transition method is applied, the standard prohibits the restatement of comparative fiscal years. Nevertheless, the Group plans to prepare restated data for 2018 for its financial communication requirements. Moreover, given the importance of leases to the Group's activities, and in order to present consistent performance indicators, independently of the fixed or variable nature of lease payments, specific indicators will be used for internal performance monitoring requirements and financial communication purposes; in particular, capitalized fixed lease payments will be deducted in their entirety from cash flow in order to calculate the aggregate entitled "Operating free cash flow". In correlation, the liability for capitalized leases will be excluded from the definition of net financial debt.

The impact of applying IFRS 16 on profit from recurring operations and net profit will not be significant.

The impact of the application of IFRIC 23 – Uncertainty over Income Tax Treatments – with effect from January 1, 2019 is being assessed.

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.

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 include the following:

- 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 relating to the impact of certain unusual transactions, such as 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 Notes 1.12 and 20), and the determination of the amount of provisions for contingencies and losses (see Note 19) or for impairment of inventories (see Notes 1.16 and 10) and, if applicable, deferred tax assets (see Note 27). Such hypotheses, estimates or other forms of judgment made on the basis of the information available or the situation prevailing at the date at which the financial statements are prepared may subsequently prove different from 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).

The consolidation on an individual or collective basis of companies that are not consolidated (see "Companies not included in the scope of consolidation") would not have a significant impact on the Group's main aggregates.

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 intra-Group 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 intra-Group 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 used to hedge commercial, financial or investment transactions are recognized in the balance sheet at their market value (see Note 1.9) at the balance sheet date. Changes in the value of the effective portions of these derivatives are recognized as follows:

- for hedges that are commercial in nature:
  - within cost of sales for hedges of receivables and payables recognized in the balance sheet at the end of the period,
  - within equity under "Revaluation reserves" for hedges of future cash flows; this amount is transferred to cost of sales upon recognition of the hedged assets and liabilities;
- for hedges that are tied to the Group's investment portfolio (hedging the net worth of subsidiaries whose functional currency is not the euro), within equity under "Cumulative translation adjustment"; this amount is transferred to the income statement upon the sale or liquidation (whether partial or total) of the subsidiary whose net worth is hedged;
- for hedges that are financial in nature, within "Net financial income/(expense)", under "Other financial income and expenses".

Changes in the value of these derivatives related to forward points associated with forward contracts, as well as in the time value component of options, are recognized as follows:

- for hedges that are commercial in nature, within equity under "Revaluation reserves". The cost of the forward contracts (forward points) and of the options (premiums) is transferred to "Other financial income and expenses" upon realization of the hedged transaction;
- for hedges that are tied to the Group's investment portfolio or financial in nature, expenses and income arising from discounts or premiums are recognized in "Borrowing costs" on a pro rata basis over the term of the hedging instruments. The difference between the amounts recognized in "Net financial income/(expense)" and the change in the value of forward points is recognized in equity under "Revaluation reserves".

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

See also Note 1.21 for the definition of the concepts of effective and ineffective portions, and Note 1.2 on the impact of the initial retrospective application as of January 1, 2016 of IFRS 9 Financial Instruments.

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 in the balance sheet 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. Unquoted 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 funds)	Based on the liquidation value at the balance sheet date. See Note 1.18.	Note 14

No other assets or liabilities have 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 5 to 20 years, depending on their estimated period of use.

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; 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", or in "Other current liabilities" if the minority shareholder has provided notice of exercising its put option before the fiscal year-end;
- 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 are 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 the market value falls below the acquisition cost, the resulting impairment is charged to the income statement.

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 are depreciated on a straight-line basis over their estimated useful lives; the following useful lives are applied:

- 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 the management of the business segments concerned. Detailed forecasts cover a five-year period, which may be extended for brands undergoing strategic repositioning or whose production cycle exceeds 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

Available for sale 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 recognized under "Net financial income/(expense)" (within "Other financial income and expenses") for all shares held in the portfolio during the reported periods. See Note 1.2 on the impact of the initial retrospective application as of January 1, 2016 of IFRS 9 Financial Instruments.

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 on a pro rata basis, in line with the estimated yield and market value.

Inventories are valued using either the weighted average cost or the 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 amortized cost, which corresponds to their face value. Impairment is recognized for the portion of loans and receivables not covered by credit insurance when such receivables are recorded, in the amount of the losses expected upon maturity. This reflects the probability of counterparty default and the expected loss rate, measured using historical statistical data, information provided by credit bureaus, or ratings by credit rating agencies, depending on the specific case.

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), under "Fair value adjustment of borrowings and interest rate hedges". See Note 1.9 regarding the measurement of hedged borrowings at market value. Interest income and expenses related to hedging instruments are recognized within net financial income/(expense), under "Borrowing costs".

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 1.2 on the impact of the initial retrospective application as of January 1, 2016 of IFRS 9 Financial Instruments.

1.21 Derivatives

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

To hedge against commercial, financial and investment foreign exchange risk, the Group uses options, forward contracts, foreign exchange swaps and cross-currency swaps. The time value of options, the forward point component of forward contracts and foreign exchange swaps, as well as the foreign currency basis spread component of cross-currency swaps are systematically excluded from the hedge relation. Consequently, only the intrinsic value of the instruments is considered a hedging instrument. Regarding hedged items (future foreign currency cash flows, commercial or financial liabilities and accounts receivable in foreign currencies, subsidiaries' equity denominated in a functional currency other than the euro), only their change in value in respect of foreign exchange risk is considered a hedged item. As such, aligning the hedging instruments' main features (nominal values, currencies, maturities) with those of the hedged items makes it possible to perfectly offset changes in value.

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 plans related to retirement bonuses, pensions, contribution to medical costs and other commitments entail the payment by the Group of contributions to third-party organizations that assume sole responsibility for subsequently paying such retirement benefits, pensions or contributions to medical costs, these contributions are expensed in the fiscal year in which they fall due, with no liability recorded on the balance sheet.

When the payment of retirement bonuses, pensions, contributions to medical costs and other commitments is to be borne by the Group, a provision is recorded in the balance sheet in the amount of the corresponding actuarial commitment. 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 fully 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 the 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 mainly concern the Wines and Spirits businesses, as well as certain Perfumes and Cosmetics and Watches and Jewelry brands. The Group recognizes revenue when title transfers to third-party customers.

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 is reduced by the estimated amount of such returns, and a provision is recognized within "Other current liabilities" (see Notes 1.2 and 21.2), along with a corresponding entry made to inventories. The estimated rate of returns is based on historical statistical data.

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 LVMH 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.

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 the 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 outstanding during the fiscal year, 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 Fiscal year 2018

In the second half of 2018, LVMH acquired the 20% stake in the share capital of Fresh that it did not own; the price paid generated the recognition of a final goodwill, previously recorded under Goodwill arising on purchase commitments for minority interests' shares.

2.2 Fiscal year 2017

Christian Dior Couture

On July 3, 2017, as part of the project aimed at simplifying the structures of the Christian Dior – LVMH group and in accordance with the terms of the memorandum of understanding concluded with Christian Dior on April 24, 2017, LVMH acquired 100% of Christian Dior Couture from Christian Dior for 6.0 billion euros. As of that date, Christian Dior directly and indirectly held 41.0% of the share capital and 56.8% of the voting rights of LVMH.

The scope acquired includes Grandville (wholly owned by Christian Dior) and its subsidiary, Christian Dior Couture. The price paid was determined on the basis of an enterprise value of 6.5 billion euros, representing 15.6 times the adjusted EBITDA for the 12-month period ended March 2017.

The acquisition of Christian Dior Couture allowed one of the world's most iconic brands to join LVMH, alongside Parfums Christian Dior, which was already part of the LVMH group. On the strength of its history and its favorable prospects, Christian Dior Couture is a source of growth for LVMH. Christian Dior Couture's expansion in the coming years will be supported in particular by its creative momentum and by the significant investments already made, especially in the Americas, China and Japan.

The following table details the definitive allocation of the purchase price paid by LVMH on July 3, 2017, the date of acquisition of the controlling interest:

(EUR millions)	**Provisional purchase price allocation**	**Change**	**Definitive purchase price allocation**
Brand and other intangible assets	361	3,243	3,604
Property, plant and equipment	952	661	1,613
Other non-current assets	59	-	59
Non-current provisions	(32)	(10)	(42)
Current assets	649	(22)	627
Current liabilities	(519)	-	(519)
Net financial debt	(385)	-	(385)
Deferred tax	69	(1,196)	(1,127)
Net assets acquired	**1,154**	**2,676**	**3,830**
Indirect minority interests	(9)	-	(9)
Net assets, Group share	**1,145**	**2,676**	**3,821**
Goodwill	4,855	(2,676)	2,179
Carrying amount of shares held as of July 3, 2017	**6,000**	**-**	**6,000**

The Christian Dior Couture brand was valued primarily using the relief from royalty method and secondarily using the excess earnings method. The value determined – 3,500 million euros – corresponds to the high end of the average range of values obtained using these methods. Final goodwill, in the amount of 2,179 million euros, represents the internationally renowned expertise and creativity of Christian Dior Couture in the fields of fashion, leather goods and jewelry, as well as its capacity to draw on a highly quality-driven network of directly-operated stores in prime locations.

The balance sheet and income statement as of December 31, 2017, including the notes to the financial statements, were restated to reflect the definitive allocation of the purchase price of Christian Dior Couture. Aside from the impact on the balance sheet presented in the table above, restated net profit for the 2017 fiscal year includes 124 million euros in deferred tax income arising from the impact on long-term deferred tax of the decrease in the corporate income tax rate in France, as stipulated in the 2018 Budget Act, related to the Christian Dior brand and to the revaluation of property, plant and equipment.

In 2017, the Christian Dior Couture acquisition generated an outflow of 5,782 million euros, net of cash acquired in the amount of 218 million euros. The transaction was funded through a number of bond issues, in a total amount of 5 billion euros, together with commercial paper for the remainder (see Note 18 to the 2017 consolidated financial statements).

The acquisition costs for Christian Dior Couture were recognized in “Other operating income and expenses” and totaled 6 million euros as of December 31, 2017 (see Note 25).

For the second half of fiscal year 2017, Christian Dior Couture had consolidated revenue of 1,183 million euros and its profit from recurring operations totaled 236 million euros. For 2017 as a whole, Christian Dior Couture had consolidated revenue of 2,230 million euros, for profit from recurring operations of 353 million euros.

Christian Dior Couture has been consolidated as part of the Fashion and Leather Goods business group since July 2017. If the acquisition date for Christian Dior Couture had been January 1, 2017, the Group would have had consolidated revenue of 43,683 million euros in 2017 and profit from recurring operations for the year would have been 8,410 million euros, with net profit of 5,189 million euros.

3. BRANDS, TRADE NAMES AND OTHER INTANGIBLE ASSETS

(EUR millions)			2018	2017	2016
	Gross	**Amortization and impairment**	**Net**	**Net**	**Net**
Brands	14,292	(696)	13,596	13,515	9,773
Trade names	3,851	(1,586)	2,265	2,176	2,440
License rights	94	(81)	13	14	16
Leasehold rights	893	(450)	443	398	338
Software, websites	1,903	(1,359)	544	459	362
Other	977	(584)	393	395	406
Total	**22,010**	**(4,756)**	**17,254**	**16,957**	**13,335**

The net amounts of brands, trade names and other intangible assets changed as follows during the fiscal year:

Gross value *(EUR millions)*	**Brands**	**Trade names**	**Software, websites**	**Leasehold rights**	**Other intangible assets**	**Total**
As of December 31, 2017	**14,184**	**3,692**	**1,661**	**858**	**989**	**21,384**
Acquisitions	-	-	177	88	272	537
Disposals and retirements	-	-	(82)	(10)	(126)	(218)
Changes in the scope of consolidation	40	-	-	1	1	42
Translation adjustment	68	159	23	3	15	268
Reclassifications	-	-	124	(47)	(80)	(3)
As of December 31, 2018	**14,292**	**3,851**	**1,903**	**893**	**1,071**	**22,010**

Amortization and impairment *(EUR millions)*	**Brands**	**Trade names**	**Software, websites**	**Leasehold rights**	**Other intangible assets**	**Total**
As of December 31, 2017	**(669)**	**(1,516)**	**(1,202)**	**(460)**	**(580)**	**(4,427)**
Amortization expense	(18)	(1)	(221)	(60)	(148)	(448)
Impairment expense	-	-	-	(2)	(7)	(9)
Disposals and retirements	-	-	80	10	126	216
Changes in the scope of consolidation	-	-	-	-	(1)	(1)
Translation adjustment	(9)	(69)	(15)	(1)	(7)	(101)
Reclassifications	-	-	(1)	63	(48)	14
As of December 31, 2018	**(696)**	**(1,586)**	**(1,359)**	**(450)**	**(665)**	**(4,756)**
Carrying amount as of Dec. 31, 2018	**13,596**	**2,265**	**544**	**443**	**406**	**17,254**

4. GOODWILL

(EUR millions)			2018	2017	2016
	Gross	Impairment	Net	Net	Net
Goodwill arising on consolidated investments	10,389	(1,735)	8,654	8,538	6,115
Goodwill arising on purchase commitments for minority interests' shares	5,073	-	5,073	5,299	4,286
Total	**15,462**	**(1,735)**	**13,727**	**13,837**	**10,401**

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

(EUR millions)			2018	2017	2016
	Gross	Impairment	Net	Net	Net
As of January 1	**15,446**	**(1,609)**	**13,837**	**10,401**	**10,122**
Changes in the scope of consolidation	45	-	45	2,605	(44)
Changes in purchase commitments for minority interests' shares	(126)	-	(126)	1,008	348
Changes in impairment	-	(100)	(100)	(51)	(97)
Translation adjustment	97	(26)	71	(126)	72
As of December 31	**15,462**	**(1,735)**	**13,727**	**13,837**	**10,401**

Changes in the scope of consolidation in 2017 were mainly attributable to the acquisitions of Christian Dior Couture and Rimowa.

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

See also Note 2 for the impact of changes in the scope of consolidation and 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, 2018, according to which no significant risk of impairment was identified. See Note 25 regarding the impairment and amortization expense recorded during the fiscal year.

6. PROPERTY, PLANT AND EQUIPMENT

(EUR millions)			2018	2017	2016
	Gross	Depreciation and impairment	Net	Net	Net
Land	2,921	(83)	2,684	2,374	1,305
Vineyard land and producing vineyards[(a)]	2,584	(111)	2,473	2,432	2,474
Buildings	4,130	(1,838)	2,446	2,052	1,735
Investment property	637	(35)	602	763	855
Leasehold improvements, machinery and equipment	12,739	(8,661)	4,078	3,971	3,417
Assets in progress	1,238	(1)	1,237	785	950
Other property, plant and equipment	2,074	(482)	1,592	1,485	1,403
Total	**26,323**	**(11,211)**	**15,112**	**13,862**	**12,139**
Of which: assets held under finance leases	*495*	*(212)*	*283*	*267*	*307*
historical cost of vineyard land and producing vineyards	*791*	*(111)*	*680*	*648*	*646*

(a) Almost all of the carrying amount of "Vineyard land and producing vineyards" corresponds to vineyard land.

Changes in property, plant and equipment during the fiscal year broke 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 property, plant and equipment	Total
				Stores	Production, logistics	Other			
As of December 31, 2017	**2,538**	**6,169**	**819**	**7,889**	**2,572**	**1,286**	**786**	**1,932**	**23,991**
Acquisitions	25	473	70	604	162	82	1,074	114	2,604
Change in the market value of vineyard land	8	-	-	-	-	-	-	-	8
Disposals and retirements	(1)	(61)	(6)	(407)	(60)	(54)	(2)	(26)	(617)
Changes in the scope of consolidation	-	-	-	3	1	4	-	-	8
Translation adjustment	(1)	101	15	153	6	20	4	9	307
Other movements, including transfers	15	369	(261)	390	75	13	(624)	45	22
As of December 31, 2018	**2,584**	**7,051**	**637**	**8,632**	**2,756**	**1,351**	**1,238**	**2,074**	**26,323**

Depreciation and impairment *(EUR millions)*	Vineyard land and producing vineyards	Land and buildings	Investment property	Leasehold improvements, machinery and equipment			Assets in progress	Other property, plant and equipment	Total
				Stores	Production, logistics	Other			
As of December 31, 2017	**(106)**	**(1,742)**	**(56)**	**(5,207)**	**(1,689)**	**(880)**	**(2)**	**(447)**	**(10,129)**
Depreciation expense	(6)	(192)	(2)	(946)	(172)	(127)	-	(67)	(1,512)
Impairment expense	-	(2)	-	2	(1)	-	-	(2)	(3)
Disposals and retirements	1	61	6	404	57	53	1	29	612
Changes in the scope of consolidation	-	-	-	(1)	-	(1)	-	-	(2)
Translation adjustment	-	(34)	(1)	(108)	(5)	(15)	-	(7)	(170)
Other movements, including transfers	-	(12)	18	(51)	-	26	-	12	(7)
As of December 31, 2018	**(111)**	**(1,921)**	**(35)**	**(5,907)**	**(1,810)**	**(944)**	**(1)**	**(482)**	**(11,211)**
Carrying amount as of December 31, 2018	**2,473**	**5,130**	**602**	**2,725**	**946**	**407**	**1,237**	**1,592**	**15,112**

"Other property, plant and equipment" includes in particular the works of art owned by the Group.

Purchases of property, plant and equipment mainly include investments by the Group's brands – notably Sephora, Louis Vuitton, DFS, Parfums Christian Dior, Bvlgari and Christian Dior Couture – in their retail networks. They also include investments by the champagne houses, Hennessy, Louis Vuitton and Parfums Christian Dior in their production equipment; investments related to the La Samaritaine and Jardin d'Acclimatation projects; and various real estate investments.

The impact of marking vineyard land to market was 1,793 million euros as of December 31, 2018 (1,785 million euros as of December 31, 2017; 1,829 million euros as of December 31, 2016). See Notes 1.9 and 1.13 on the measurement method for vineyard land.

7. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

(EUR millions)			2018			2017		2016
	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	**647**	**(8)**	**639**	***273***	**770**	***362***	**729**	***353***
Share of net profit (loss) for the period	23	-	23	*12*	(3)	*2*	3	*4*
Dividends paid	(28)	-	(28)	*(9)*	(22)	*(8)*	(21)	*(8)*
Changes in the scope of consolidation	(18)	8	(10)	*2*	(82)	*(84)*	27	*-*
Capital increases subscribed	3	-	3	*1*	5	*3*	4	*3*
Translation adjustment	7	-	7	*-*	(33)	*(7)*	7	*(1)*
Other, including transfers	4	-	4	*(1)*	4	*5*	21	*11*
Share of net assets of joint ventures and associates as of December, 31	**638**	**-**	**638**	***278***	**639**	***273***	**770**	***362***

As of December 31, 2018, 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.
- For other companies:

- a 40% stake in Mongoual SA, the real estate company that owns the office building in Paris (France) that serves 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 40% stake in L Catterton Management, an investment fund management company created in December 2015 in partnership with Catterton.

Repossi – an Italian jewelry brand in which the Group had taken a 41.7% stake, which was acquired in November 2015 and accounted for using the equity method until December 31, 2017 – is now fully consolidated, following the acquisition of an additional stake in the company, raising the Group's ownership interest from 41.7% to 68.9%.

8. NON-CURRENT AVAILABLE FOR SALE FINANCIAL ASSETS

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

(EUR millions)	2018	2017	2016
As of January 1	**789**	**744**	**574**
Acquisitions	450	125	147
Disposals at net realized value	(45)	(85)	(44)
Changes in market value[a]	(101)	101	(20)
Changes in the scope of consolidation	-	5	67
Translation adjustment	16	(43)	20
Reclassifications	(9)	(58)	-
As of December 31	**1,100**	**789**	**744**

(a) Recognized within "Net financial income/(expense)".

Acquisitions in fiscal year 2018 included in particular, for 274 million euros, the impact of the acquisition of Belmond shares (see Notes 18 and 30), as well as, for 87 million euros, the impact of subscription of securities in investment funds and purchases of minority interests.

Acquisitions in fiscal year 2017 included, for 64 million euros, the impact of subscription of securities in investment funds.

Acquisitions in fiscal year 2016 included the 120 million euro impact of non-current available for sale financial assets used to hedge cash-settled convertible bonds issued during the period. 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).

The market value of non-current available for sale financial assets is determined using the methods described in Note 1.9.

9. OTHER NON-CURRENT ASSETS

(EUR millions)	2018	2017	2016
Warranty deposits	379	320	295
Derivatives[a]	257	246	168
Loans and receivables	303	264	288
Other	47	39	26
Total	**986**	**869**	**777**

(a) See Note 22.

10. INVENTORIES AND WORK IN PROGRESS

(EUR millions)			2018	2017	2016
	Gross	Impairment	Net	Net	Net
Wines and *eaux-de-vie* in the process of aging	4,796	(12)	4,784	4,517	4,281
Other raw materials and work in progress	2,105	(405)	1,700	1,370	1,225
	6,901	(417)	6,484	5,887	5,506
Goods purchased for resale	2,316	(225)	2,091	1,767	1,819
Finished products	4,852	(942)	3,910	3,234	3,221
	7,168	(1,167)	6,001	5,001	5,040
Total	**14,069**	**(1,584)**	**12,485**	**10,888**	**10,546**

See Note 1.16.

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

(EUR millions)			2018	2017	2016
	Gross	Impairment	Net	Net	Net
As of January 1	**12,426**	**(1,538)**	**10,888**	**10,546**	**10,096**
Change in gross inventories	1,722	-	1,722	1,006	819
Impact of provision for returns[(a)]	7	-	7	11	(4)
Impact of marking harvests to market	16	-	16	(21)	(19)
Changes in provision for impairment	-	(285)	(285)	(339)	(377)
Changes in the scope of consolidation	29	(4)	25	237	(62)
Translation adjustment	140	(31)	109	(550)	93
Other, including reclassifications	(271)	274	3	(2)	-
As of December 31	**14,069**	**(1,584)**	**12,485**	**10,888**	**10,546**

(a) See Note 1.25.

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

(EUR millions)	2018	2017	2016
Impact of marking the fiscal year's harvest to market	41	5	13
Impact of inventory sold during the fiscal year	(25)	(26)	(32)
Net impact on cost of sales of the fiscal year	**16**	**(21)**	**(19)**
Net impact on the value of inventory as of December 31	**126**	**110**	**131**

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

11. TRADE ACCOUNTS RECEIVABLE

(EUR millions)	2018	2017	2016
Trade accounts receivable, nominal amount	3,302	3,079	2,979
Provision for impairment	(78)	(78)	(66)
Provision for product returns[(a)]	(2)	(265)	(228)
Net amount	**3,222**	**2,736**	**2,685**

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

(EUR millions)			2018	2017	2016
	Gross	Impairment	Net	Net	Net
As of January 1	**2,814**	**(78)**	**2,736**	**2,685**	**2,521**
Changes in gross receivables	179	-	179	134	122
Changes in provision for impairment	-	(1)	(1)	(11)	(1)
Changes in provision for product returns[(a)]	7	-	7	(43)	5
Changes in the scope of consolidation	5	-	5	141	(16)
Translation adjustment	24	-	24	(154)	46
Reclassifications[(a)]	271	1	272	(16)	8
As of December 31	**3,300**	**(78)**	**3,222**	**2,736**	**2,685**

(a) See Note 1.25. See also Note 1.2.

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, 2018, coverage of customer credit risk had been requested from insurers for the majority of trade receivables, approximately 84% of the amount of which was granted, versus 91% as of December 31, 2017 and 90% as of December 31, 2016.

12. OTHER CURRENT ASSETS

(EUR millions)	2018	2017	2016
Current available for sale financial assets[(a)]	666	515	374
Derivatives[(b)]	123	496	261
Tax accounts receivable, excluding income taxes	895	747	620
Advances and payments on account to vendors	216	203	191
Prepaid expenses	430	396	379
Other receivables	538	562	517
Total	**2,868**	**2,919**	**2,342**

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

13. CURRENT AVAILABLE FOR SALE FINANCIAL ASSETS

(EUR millions)	**2018**	**2017**	**2016**
Unlisted securities, shares in non-money market SICAVs and funds	-	-	-
Listed securities and term deposits	666	515	374
Total	**666**	**515**	**374**
Of which: historical cost of current available for sale financial assets	*576*	*344*	*351*

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

(EUR millions)	**2018**	**2017**	**2016**
As of January 1	**515**	**374**	**385**
Acquisitions	311	112	151
Disposals at net realized value	(164)	(181)	(181)
Changes in market value[(a)]	3	156	19
Changes in the scope of consolidation	-	-	-
Translation adjustment	1	(4)	-
Reclassifications	-	58	-
As of December 31	**666**	**515**	**374**

(a) Recognized within "Net financial income/(expense)".

The market value of current available for sale financial assets is determined using the methods described in Note 1.9.

14. CASH AND CHANGE IN CASH

14.1 Cash and cash equivalents

(EUR millions)	**2018**	**2017**	**2016**
Term deposits (less than 3 months)	654	708	520
SICAV and FCP funds	192	194	668
Ordinary bank accounts	3,764	2,836	2,356
Cash and cash equivalents per balance sheet	**4,610**	**3,738**	**3,544**

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)	**2018**	**2017**	**2016**
Cash and cash equivalents	4,610	3,738	3,544
Bank overdrafts	(197)	(120)	(207)
Net cash and cash equivalents per cash flow statement	**4,413**	**3,618**	**3,337**

14.2 Change in working capital

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

(EUR millions)	Notes	2018	2017	2016
Change in inventories and work in progress	10	(1,722)	(1,006)	(819)
Change in trade accounts receivable	11	(179)	(134)	(122)
Change in balance of amounts owed to customers		8	2	9
Change in trade accounts payable	21	715	257	235
Change in other receivables and payables		91	367	185
Change in working capital [(a)]		**(1,087)**	**(514)**	**(512)**

(a) 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	2018	2017	2016
Purchase of intangible assets	3	(537)	(456)	(440)
Purchase of property, plant and equipment[(a)]	6	(2,604)	(1,889)	(2,150)
Deduction of purchase under finance lease		14	6	204
Changes in accounts payable related to fixed asset purchases		137	40	125
Net cash used in purchases of fixed assets		**(2,990)**	**(2,299)**	**(2,261)**
Net cash from fixed asset disposals		10	26	6
Guarantee deposits paid and other cash flows related to operating investments		(58)	(3)	(10)
Operating investments [(b)]		**(3,038)**	**(2,276)**	**(2,265)**

(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, 2018, the share capital consisted of 505,029,495 fully paid-up shares (507,042,596 as of December 31, 2017 and 507,126,088 as of December 31, 2016), with a par value of 0.30 euros per share, including 231,834,011 shares with double voting rights (229,656,385 as of December 31, 2017 and 229,432,106 as of December 31, 2016). 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)	2018				2017	2016
	Number	Amount			Amount	Amount
		Share capital	Share premium account	Total		
As of January 1	**507,042,596**	**152**	**2,614**	**2,766**	**2,753**	**2,731**
Exercise of share subscription options	762,851	-	49	49	53	64
Retirement of shares	(2,775,952)	-	(365)	(365)	(40)	(42)
As of December 31	**505,029,495**	**152**	**2,298**	**2,450**	**2,766**	**2,753**

15.2 LVMH treasury shares

The portfolio of LVMH treasury shares is allocated as follows:

(Number of shares or EUR millions)	2018		2017	2016
	Number	Amount	Amount	Amount
Share subscription option plans	413,606	20	57	98
Bonus share plans	1,354,798	302	122	90
Shares held for stock option and similar plans [(a)]	**1,768,404**	**322**	**179**	**188**
Liquidity contract	97,000	25	23	15
Shares pending retirement	270,000	74	328	317
LVMH treasury shares	**2,135,404**	**421**	**530**	**520**

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

The market value of LVMH shares held under the liquidity contract as of December 31, 2018 amounted to 25 million euros.

The portfolio movements of LVMH treasury shares during the fiscal year were as follows:

(Number of shares or EUR millions)	Number	Amount	Impact on cash
As of December 31, 2017	**4,281,097**	**530**	
Share purchases [(a)]	2,017,130	544	(544)
Vested bonus shares	(459,741)	(39)	-
Retirement of shares	(2,775,952)	(365)	-
Disposals at net realized value [(a)]	(927,130)	(249)	249
Gain/(loss) on disposal		-	-
As of December 31, 2018	**2,135,404**	**421**	**(295)**

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

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, 2018, the distributable amount was 15,287 million euros; after taking into account the proposed dividend distribution in respect of the 2018 fiscal year, it was 13,267 million euros.

(EUR millions, except for data per share in EUR)	2018	2017	2016
Interim dividend for the current fiscal year (2018: 2.00 euros; 2017: 1.60 euros; 2016: 1.40 euros)	1,010	811	710
Impact of treasury shares	(4)	(7)	(6)
Gross amount disbursed for the fiscal year	**1,006**	**804**	**704**
Final dividend for the previous fiscal year (2017: 3.40 euros; 2016: 2.60 euros)	1,717	1,319	1,115
Impact of treasury shares	(8)	(13)	(9)
Gross amount disbursed for the previous fiscal year	**1,709**	**1,306**	**1,106**
Total gross amount disbursed during the period [(a)]	**2,715**	**2,110**	**1,810**

(a) Excluding the impact of tax regulations applicable to the recipient.

The final dividend for fiscal year 2018, as proposed at the Shareholders' Meeting of April 18, 2019, is 4.00 euros per share, representing a total of 2,020 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 the Group share of equity, net of hedging effects of net assets denominated in foreign currency, breaks down as follows by currency:

(EUR millions)	2018	Change	2017	2016
US dollar	293	154	139	508
Swiss franc	632	104	528	762
Japanese yen	109	40	69	96
Hong Kong dollar	354	38	316	493
Pound sterling	(115)	(8)	(107)	(85)
Other currencies	(250)	(80)	(170)	(94)
Foreign currency net investment hedges[(a)]	(450)	(29)	(421)	(515)
Total, Group share	**573**	**219**	**354**	**1,165**

(a) Including -141 million euros with respect to the US dollar (-130 million euros as of December 31, 2017 and -169 million euros as of December 31, 2016), -117 million euros with respect to the Hong Kong dollar (-117 million euros as of December 31, 2017 and -135 million euros as of December 31, 2016), and -193 million euros with respect to the Swiss franc (-180 million euros as of December 31, 2017 and -214 million euros as of December 31, 2016). These amounts include the tax impact.

16. STOCK OPTION AND SIMILAR PLANS

16.1 Share subscription option plans

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

	2018		2017		2016	
	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	**1,180,692**	**59.56**	**1,903,010**	**65.17**	**2,821,150**	**66.79**
Options expired	(6,753)	63.98	(13,833)	74.67	(10,211)	68.07
Options exercised	(762,851)	64.21	(708,485)	74.33	(907,929)	70.19
Share subscription options outstanding as of December 31	**411,088**	**50.86**	**1,180,692**	**59.56**	**1,903,010**	**65.17**

16.2 Bonus share plans

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

(number of shares)	2018	2017	2016
Non-vested shares as of January 1	**1,395,351**	**1,312,587**	**1,456,068**
Provisional allocations for the period	462,281	455,252	360,519
Shares vested during the period	(459,741)	(335,567)	(465,660)
Shares expired during the period	(45,913)	(36,921)	(38,340)
Non-vested shares as of December 31	**1,351,978**	**1,395,351**	**1,312,587**

Vested share allocations were settled in existing shares held.

16.3 Expense for the fiscal year

(EUR millions)	2018	2017	2016
Expense for the period for share subscription option and bonus share plans	82	62	41

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 241.20 euros for the plan dated January 25, 2018; 278.25 euros for the plan dated April 12, 2018; and 259.65 euros for the plan dated October 25, 2018.

The average unit value of non-vested bonus shares awarded under this plan during the 2018 fiscal year was 246.33 euros.

17. MINORITY INTERESTS

(EUR millions)	2018	2017	2016
As of January 1	**1,408**	**1,510**	**1,460**
Minority interests' share of net profit	636	475	387
Dividends paid to minority interests	(345)	(261)	(272)
Impact of changes in control of consolidated entities	41	114	22
Of which: Rimowa	*-*	*89*	*-*
Other	*41*	*25*	*22*
Impact of acquisition and disposal of minority interests' shares	(19)	(56)	(34)
Of which: Loro Piana	*-*	*(58)*	*-*
Other	*(19)*	*2*	*(34)*
Total impact of changes in the ownership interests in consolidated entities	**22**	**58**	**(12)**
Capital increases subscribed by minority interests	50	44	41
Minority interests' share in gains and losses recognized in equity	45	(134)	46
Minority interests' share in stock option plan expenses	4	7	2
Impact of changes in minority interests with purchase commitments	(156)	(291)	(142)
As of December 31	**1,664**	**1,408**	**1,510**

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 and cost of hedges	Vineyard land	Revaluation adjustments of employee benefits	Total share of minority interests
As of December 31, 2015	**183**	**(9)**	**221**	**(24)**	**371**
Changes during the fiscal year	41	(5)	25	(15)	46
As of December 31, 2016	**224**	**(14)**	**246**	**(39)**	**417**
Changes during the fiscal year	(178)	30	11	3	(134)
As of December 31, 2017	**46**	**16**	**257**	**(36)**	**283**
Changes during the fiscal year	69	(30)	3	3	45
As of December 31, 2018	**115**	**(14)**	**260**	**(33)**	**328**

Minority interests are composed primarily of Diageo's 34% stake in Moët Hennessy SAS and Moët Hennessy International SAS ("Moët Hennessy"), and the 39% stake held by Robert Miller in DFS. 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)	2018	2017	2016
Bonds and Euro Medium-Term Notes (EMTNs)	5,593	6,557	3,476
Bank borrowings and finance leases	412	489	456
Long-term borrowings	**6,005**	**7,046**	**3,932**
Bonds and Euro Medium-Term Notes (EMTNs)	996	1,753	1,377
Commercial paper	3,174	1,855	1,204
Bank overdrafts	197	120	207
Other short-term borrowings	660	802	659
Short-term borrowings	**5,027**	**4,530**	**3,447**
Gross borrowings	**11,032**	**11,576**	**7,379**
Interest rate risk derivatives	(16)	(28)	(65)
Foreign exchange risk derivatives	146	(25)	(21)
Gross borrowings after derivatives	**11,162**	**11,523**	**7,293**
Current available for sale financial assets[(a)]	(666)	(515)	(374)
Non-current available for sale financial assets used to hedge financial debt	(125)	(117)	(131)
Cash and cash equivalents[(c)]	(4,610)	(3,738)	(3,544)
Net financial debt	**5,761**	**7,153**	**3,244**
Belmond shares (presented under "Non-current financial assets")[(b)]	(274)	-	-
Adjusted net financial debt, excluding the acquisition of Belmond shares	**5,487**	**7,153**	**3,244**

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

In late December 2018, after the announcement of LVMH's acquisition of Belmond, the Group purchased Belmond shares on the market for 274 million euros. These shares are presented within "Non-current available for sale financial assets" (see Note 8).

The adjusted net financial debt (excluding the acquisition of Belmond shares) presented above helps show the impact of the Group's performance in 2018 on the level of net financial debt at the balance sheet date.

The change in gross borrowings after derivatives during the fiscal year is as follows:

(EUR millions)	Dec. 31, 2017	Impact on cash[(a)]	Translation adjustment	Impact of market value changes	Changes in the scope of consolidation	Reclas-sifications and Other	Dec. 31, 2018
Long-term borrowings	7,046	(43)	(20)	5	-	(983)	6,005
Short-term borrowings	4,530	(555)	75	2	5	970	5,027
Gross borrowings	**11,576**	**(598)**	**55**	**7**	**5**	**(13)**	**11,032**
Derivatives	(53)	(47)	-	233	-	(3)	130
Gross borrowings after derivatives	**11,523**	**(645)**	**55**	**240**	**5**	**(16)**	**11,162**

(a) Of which 1,529 in respect of proceeds from borrowings and 2,174 in respect of repayment of borrowings.

During the fiscal year, LVMH repaid the 500 million euro bond issued in 2011 and the 1,250 million euro bond issued in 2017.

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			Impact of derivatives			Gross borrowings after derivatives		
		Fixed rate	**Floating rate**	**Total**	**Fixed rate**	**Floating rate**	**Total**	**Fixed rate**	**Floating rate**	**Total**
Maturity:	December 31, 2019	4,433	594	5,027	(270)	354	84	4,163	948	5,111
	December 31, 2020	1,901	13	1,914	(413)	446	33	1,488	459	1,947
	December 31, 2021	1,386	5	1,391	(664)	649	(15)	722	654	1,376
	December 31, 2022	1,262	3	1,265	(632)	648	16	630	651	1,281
	December 31, 2023	22	4	26	14	-	14	36	4	40
	December 31, 2024	1,217	1	1,218	(299)	297	(2)	918	298	1,216
	Thereafter	184	7	191	-	-	-	184	7	191
Total		**10,405**	**627**	**11,032**	**(2,264)**	**2,394**	**130**	**8,141**	**3,021**	**11,162**

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

The breakdown by quarter of gross borrowings falling due in 2019 is as follows:

(EUR millions)	**Falling due in 2019**
First quarter	3,496
Second quarter	726
Third quarter	20
Fourth quarter	785
Total	**5,027**

18.3 Analysis of gross borrowings by currency after derivatives

(EUR millions)	**2018**	**2017**	**2016**
Euro	6,445	6,665	2,251
US dollar	3,277	3,045	2,464
Swiss franc	-	144	613
Japanese yen	662	722	586
Other currencies	778	947	1,379
Total	**11,162**	**11,523**	**7,293**

The purpose of foreign currency borrowings is to finance the development of the Group's activities outside the eurozone, as well as the Group's assets denominated in foreign currency.

19. PROVISIONS

(EUR millions)	**2018**	**2017**	**2016**
Provisions for pensions, medical costs and similar commitments	605	625	698
Provisions for contingencies and losses	1,823	1,850	1,626
Provisions for reorganization	2	9	18
Non-current provisions	**2,430**	**2,484**	**2,342**
Provisions for pensions, medical costs and similar commitments	7	4	4
Provisions for contingencies and losses	341	366	319
Provisions for reorganization	21	34	29
Current provisions	**369**	**404**	**352**
Total	**2,799**	**2,888**	**2,694**

In 2018, changes in provisions were as follows:

(EUR millions)	**Dec. 31, 2017**	**Increases**	**Amounts used**	**Amounts released**	**Changes in the scope of consolidation**	**Other[a]**	**Dec. 31, 2018**
Provisions for pensions, medical costs and similar commitments	629	122	(122)	(2)	-	(15)	612
Provisions for contingencies and losses	2,216	314	(218)	(166)	(24)	42	2,164
Provisions for reorganization	43	3	(22)	(1)	-	-	23
Total	**2,888**	**439**	**(362)**	**(169)**	**(24)**	**27**	**2,799**
Of which: profit from recurring operations		*358*	*(325)*	*(84)*			
net financial income/(expense)		*-*	*(1)*	*(4)*			
other		*81*	*(36)*	*(81)*			

(a) Including the impact of translation adjustments and changes 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 (distributors, suppliers, shareholders in subsidiaries, etc.).

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 notified, 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.

20. OTHER NON-CURRENT LIABILITIES

(EUR millions)	**2018**	**2017**	**2016**
Purchase commitments for minority interests' shares	9,281	9,177	7,877
Derivatives[a]	283	229	134
Employee profit sharing	89	94	91
Other liabilities	386	370	395
Total	**10,039**	**9,870**	**8,497**

(a) See Note 22.

As of December 31, 2018, purchase commitments for minority interests' shares mainly include the put option granted by LVMH to Diageo plc for its 34% share in Moët Hennessy, for 80% of the fair value of Moët Hennessy at the exercise date of the option. This option may be exercised at any time subject to a six-month notice period. 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 SAS and Moët Hennessy International SAS ("Moët Hennessy") hold the LVMH group's investments in the Wines and Spirits businesses, with the exception of the equity investments in Château d'Yquem, Château Cheval Blanc, Clos des Lambrays and Colgin Cellars, and excluding certain champagne vineyards.

Purchase commitments for minority interests' shares also include commitments relating to minority shareholders in Loro Piana (15%), Rimowa (20%) and distribution subsidiaries in various countries, mainly in the Middle East.

The put option granted to minority interests in Fresh was exercised in 2018. 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)	**2018**	**2017**	**2016**
As of January 1	**4,539**	**4,184**	**3,960**
Changes in trade accounts payable	715	257	235
Changes in amounts owed to customers	8	2	9
Changes in the scope of consolidation	7	315	(36)
Translation adjustment	49	(198)	46
Reclassifications	(4)	(21)	(30)
As of December 31	**5,314**	**4,539**	**4,184**

21.2 Other current liabilities

(EUR millions)	**2018**	**2017**	**2016**
Derivatives[(a)]	166	45	207
Employees and social institutions	1,668	1,530	1,329
Employee profit sharing	105	101	103
Taxes other than income taxes	685	634	574
Advances and payments on account from customers	398	354	237
Provision for product returns[(b)]	356	-	-
Deferred payment for non-current assets	646	548	590
Deferred income	273	255	251
Other liabilities	1,288	1,286	1,108
Total	**5,585**	**4,753**	**4,399**

(a) See Note 22.
(b) See Notes 1.2 and 1.25.

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	**2018**	**2017**	**2016**
Interest rate risk	Assets:	non-current		23	33	53
		current		12	9	17
	Liabilities:	non-current		(7)	(8)	-
		current		(12)	(6)	(5)
			22.3	**16**	**28**	**65**
Foreign exchange risk	Assets:	non-current		18	34	46
		current		108	485	244
	Liabilities:	non-current		(60)	(42)	(65)
		current		(154)	(39)	(199)
			22.4	**(88)**	**438**	**26**
Other risks	Assets:	non-current		216	179	69
		current		3	2	-
	Liabilities:	non-current		(216)	(179)	(69)
		current		-	-	(3)
			22.5	**3**	**2**	**(3)**
Total	Assets:	non-current	9	257	246	168
		current	12	123	496	261
	Liabilities:	non-current	20	(283)	(229)	(134)
		current	21	(166)	(45)	(207)
				(69)	**468**	**88**

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 impact 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, 2018 break down as follows:

(EUR millions)	Nominal amounts by maturity				Market value [(a)(b)]		
	Less than 1 year	From 1 to 5 years	More than 5 years	Total	Fair value hedges	Not allocated	Total
Interest rate swaps in euros, floating-rate payer	343	1,697	300	2,340	24	-	24
Interest rate swaps in euros, fixed-rate payer	-	343	-	343	-	(2)	(2)
Foreign currency swaps, euro-rate payer	92	447	-	539	-	-	-
Foreign currency swaps, euro-rate receiver	69	133	-	202	(6)	-	(6)
Total					**18**	**(2)**	**16**

(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 portion 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 intra-Group 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, 2018 break down as follows:

(EUR millions)	Nominal amounts by fiscal year of allocation [(a)]				Market value [(b)(c)]				
	2018	2019	Thereafter	Total	Future cash flow hedges	Fair value hedges	Foreign currency net investment hedges	Not allocated	Total
Options purchased									
Put USD	125	275	-	400	1	2	-	-	3
Put JPY	10	16	-	26	-	-	-	-	-
Put GBP	28	9	-	37	-	-	-	-	-
Other	-	27	-	27	-	1	-	-	1
	163	**327**	**-**	**490**	**1**	**3**	**-**	**-**	**4**
Collars									
Written USD	432	5,237	348	6,017	-	21	-	-	21
Written JPY	-	1,135	-	1,135	-	9	-	-	9
Written GBP	7	249	-	256	-	9	-	-	9
Written HKD	-	539	-	539	-	2	-	-	2
	439	**7,160**	**348**	**7,947**	**-**	**41**	**-**	**-**	**41**
Forward exchange contracts									
USD	292	(93)	-	199	1	3	-	-	4
HKD	106	1	-	107	-	-	-	-	-
JPY	85	-	-	85	(2)	-	-	-	(2)
CHF	(1)	(114)	-	(115)	1	3	-	-	4
RUB	33	-	-	33	1	-	-	-	1
CNY	25	-	-	25	-	-	-	-	-
GBP	20	32	43	95	-	3	-	-	3
Other	135	20	-	155	1	1	-	-	2
	695	**(154)**	**43**	**584**	**2**	**10**	**-**	**-**	**12**
Foreign exchange swaps									
USD	812	1,223	(524)	1,511	(117)	-	-	-	(117)
GBP	933	-	-	933	(11)	-	-	-	(11)
JPY	386	-	-	386	(18)	-	(1)	-	(19)
CNY	80	11	15	106	(3)	-	-	-	(3)
Other	(182)	-	-	(182)	7	-	(2)	-	5
	2,029	**1,234**	**(509)**	**2,754**	**(142)**	**-**	**(3)**	**-**	**(145)**
Total	**3,326**	**8,567**	**(118)**	**11,775**	**(139)**	**54**	**(3)**	**-**	**(88)**

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

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. The valuation of financial instruments thus takes into consideration market parameters 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, 2018 have a positive market value of 3 million euros. Considering nominal values of 158 million euros for those derivatives, a uniform 1% change in their underlying assets' prices as of December 31, 2018 would have a net impact on the Group's consolidated reserves in an amount of less than 1 million euros. These instruments mature in 2019.

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.

Rimowa and Christian Dior Couture were consolidated as part of the Fashion and Leather Goods business group as of January 2017 and July 2017, respectively. The acquisition of Christian Dior Couture has not had any impact on the presentation of Parfums Christian Dior, which continues to be consolidated as part of the Perfumes and Cosmetics business group.

23.1 Information by business group

Fiscal year 2018

(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	5,115	18,389	5,015	4,012	13,599	696	-	46,826
Intra-Group sales	28	66	1,077	111	47	18	(1,347)	-
Total revenue	**5,143**	**18,455**	**6,092**	**4,123**	**13,646**	**714**	**(1,347)**	**46,826**
Profit from recurring operations	1,629	5,943	676	703	1,382	(270)	(60)	10,003
Other operating income and expenses	(3)	(10)	(16)	(4)	(5)	(88)	-	(126)
Depreciation and amortization expense	(155)	(759)	(275)	(238)	(461)	(72)	-	(1,960)
Impairment expense	(7)	(5)	-	(1)	(2)	(97)	-	(112)
Intangible assets and goodwill [b]	6,157	13,246	1,406	5,791	3,430	951	-	30,981
Property, plant and equipment	2,871	3,869	677	576	1,817	5,309	(7)	15,112
Inventories	5,471	2,364	842	1,609	2,532	23	(356)	12,485
Other operating assets	1,449	1,596	1,401	721	870	976	8,709 [c]	15,722
Total assets	**15,948**	**21,075**	**4,326**	**8,697**	**8,649**	**7,259**	**8,346**	**74,300**
Equity	-	-	-	-	-	-	33,957	33,957
Liabilities	1,580	4,262	2,115	1,075	3,005	1,249	27,057 [d]	40,343
Total liabilities and equity	**1,580**	**4,262**	**2,115**	**1,075**	**3,005**	**1,249**	**61,014**	**74,300**
Operating investments [e]	(298)	(827)	(330)	(303)	(537)	(743)	-	(3,038)

Fiscal year 2017

(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	5,051	15,422	4,534	3,722	13,272	635	-	42,636
Intra-Group sales	33	50	1,026	83	39	16	(1,247)	-
Total revenue	**5,084**	**15,472**	**5,560**	**3,805**	**13,311**	**651**	**(1,247)**	**42,636**
Profit from recurring operations	1,558	4,905	600	512	1,075	(309)	(48)	8,293
Other operating income and expenses	(18)	(29)	(8)	(90)	(42)	7	-	(180)
Depreciation and amortization expense	(159)	(669)	(254)	(223)	(452)	(65)	-	(1,822)
Impairment expense	1	-	-	(50)	(58)	(2)	-	(109)
Intangible assets and goodwill[(b)]	6,277	13,149	1,280	5,684	3,348	1,056	-	30,794
Property, plant and equipment	2,740	3,714	607	537	1,701	4,570	(7)	13,862
Inventories	5,115	1,884	634	1,420	2,111	16	(292)	10,888
Other operating assets	1,449	1,234	1,108	598	845	1,279	7,698[(c)]	14,211
Total assets	**15,581**	**19,981**	**3,629**	**8,239**	**8,005**	**6,921**	**7,399**	**69,755**
Equity	-	-	-	-	-	-	30,377	30,377
Liabilities	1,544	3,539	1,706	895	2,839	1,223	27,632[(d)]	39,378
Total liabilities and equity	**1,544**	**3,539**	**1,706**	**895**	**2,839**	**1,223**	**58,009**	**69,755**
Operating investments[(e)]	(292)	(563)	(286)	(269)	(570)	(297)	1	(2,276)

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	7,246[(c)]	13,195
Total assets	**14,137**	**11,239**	**3,419**	**8,531**	**8,549**	**6,768**	**6,973**	**59,616**
Equity	-	-	-	-	-	-	27,898	27,898
Liabilities	1,524	2,641	1,593	918	2,924	1,178	20,940[(d)]	31,718
Total liabilities and equity	**1,524**	**2,641**	**1,593**	**918**	**2,924**	**1,178**	**48,838**	**59,616**
Operating investments[(e)]	(276)	(506)	(268)	(229)	(558)	(434)	6	(2,265)

(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, current and deferred tax liabilities, and liabilities related to purchase commitments for minority interests' shares.
(e) Increase/(Decrease) in cash and cash equivalents.

23.2 Information by geographic region

Revenue by geographic region of delivery breaks down as follows:

(EUR millions)	**2018**	**2017**	**2016**
France	4,491	4,172	3,745
Europe (excluding France)	8,731	8,000	6,825
United States	11,207	10,691	10,004
Japan	3,351	2,957	2,696
Asia (excluding Japan)	13,723	11,877	9,922
Other countries	5,323	4,939	4,408
Revenue	**46,826**	**42,636**	**37,600**

Operating investments by geographic region are as follows:

(EUR millions)	**2018**	**2017**	**2016**
France	1,054	921	807
Europe (excluding France)	539	450	375
United States	765	393	491
Japan	80	51	65
Asia (excluding Japan)	411	309	314
Other countries	189	152	213
Operating investments	**3,038**	**2,276**	**2,265**

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 revenue by business group breaks 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	1,195	4,270	1,500	959	3,104	161	(335)	10,854
Second quarter	1,076	4,324	1,377	1,019	3,221	186	(307)	10,896
Third quarter	1,294	4,458	1,533	1,043	3,219	173	(341)	11,379
Fourth quarter	1,578	5,403	1,682	1,102	4,102	194	(364)	13,697
Total for 2018	**5,143**	**18,455**	**6,092**	**4,123**	**13,646**	**714**	**(1,347)**	**46,826**
First quarter	1,196	3,405	1,395	879	3,154	163	(308)	9,884
Second quarter	1,098	3,494 [(a)]	1,275	959	3,126	163	(285)	9,830
Third quarter	1,220	3,939	1,395	951	3,055	146	(325)	10,381
Fourth quarter	1,570	4,634	1,495	1,016	3,976	179	(329)	12,541
Total for 2017	**5,084**	**15,472**	**5,560**	**3,805**	**13,311**	**651**	**(1,247)**	**42,636**
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 for 2016	**4,835**	**12,775**	**4,953**	**3,468**	**11,973**	**638**	**(1,042)**	**37,600**

(a) Including the entire revenue of Rimowa for the first half of 2017.

24. EXPENSES BY NATURE

Profit from recurring operations includes the following expenses:

(EUR millions)	2018	2017	2016
Advertising and promotion expenses	5,518	4,831	4,242
Lease expenses	3,678	3,783	3,422
Personnel costs	8,290	7,618	6,575
Research and development expenses	130	130	111

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, 2018, a total of 4,592 stores were operated by the Group worldwide (4,374 in 2017; 3,948 in 2016), 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)	2018	2017	2016
Fixed or minimum lease payments	1,910	1,847	1,669
Variable portion of indexed leases	911	791	620
Airport concession fees – fixed portion or minimum amount	466	550	580
Airport concession fees – variable portion	391	595	553
Commercial lease expenses	**3,678**	**3,783**	**3,422**

Personnel costs consist of the following elements:

(EUR millions)	2018	2017	2016
Salaries and social security contributions	8,081	7,444	6,420
Pensions, contribution to medical costs and expenses in respect of defined-benefit plans[(a)]	127	112	114
Stock option plan and related expenses[(b)]	82	62	41
Personnel costs	**8,290**	**7,618**	**6,575**

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

25. OTHER OPERATING INCOME AND EXPENSES

(EUR millions)	2018	2017	2016
Net gains/(losses) on disposals	(5)	(15)	39
Restructuring costs	1	(15)	3
Remeasurement of shares acquired prior to their initial consolidation	-	(12)	-
Transaction costs relating to the acquisition of consolidated companies	(10)	(13)	(3)
Impairment or amortization of brands, trade names, goodwill and other property	(117)	(128)	(155)
Other items, net	5	3	(6)
Other operating income and expenses	**(126)**	**(180)**	**(122)**

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

26. NET FINANCIAL INCOME/(EXPENSE)

(EUR millions)	2018	2017	2016
Borrowing costs	(158)	(169)	(158)
Income from cash, cash equivalents and current available for sale financial assets	44	34	26
Fair value adjustment of borrowings and interest rate hedges	(3)	(2)	(1)
Cost of net financial debt	**(117)**	**(137)**	**(133)**
Dividends received from non-current available for sale financial assets	18	13	6
Cost of foreign exchange derivatives	(160)	(168)	(187)
Fair value adjustment of available for sale financial assets	(108)	264	28
Other items, net	(21)	(31)	(32)
Other financial income and expenses	**(271)**	**78**	**(185)**
Net financial income/(expense)	**(388)**	**(59)**	**(318)**

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

(EUR millions)	2018	2017	2016
Income from cash and cash equivalents	31	21	14
Income from current available for sale financial assets	13	13	12
Income from cash, cash equivalents and current available for sale financial assets	**44**	**34**	**26**

The cost of foreign exchange derivatives breaks down as follows:

(EUR millions)	2018	2017	2016
Cost of commercial foreign exchange derivatives	(156)	(175)	(267)
Cost of foreign exchange derivatives related to net investments denominated in foreign currency	3	-	(6)
Cost and other items related to other foreign exchange derivatives	(7)	7	(57)
Cost of foreign exchange derivatives	**(160)**	**(168)**	**(330)**

27. INCOME TAXES

(EUR millions)	2018	2017	2016
Current income taxes for the fiscal year	(2,631)	(2,875)	(2,650)
Current income taxes relating to previous fiscal years	76	474	(16)
Current income taxes	**(2,555)**	**(2,401)**	**(2,666)**
Change in deferred income taxes	57	137	251
Impact of changes in tax rates on deferred income taxes	(1)	50	282
Deferred income taxes	**56**	**187**	**533**
Total tax expense per income statement	**(2,499)**	**(2,214)**	**(2,133)**
Tax on items recognized in equity	**118**	**(103)**	**139**

In October 2017, the French Constitutional Court declared invalid the French system for taxing dividends, introduced in 2012, which required French companies to pay a tax in an amount equivalent to 3% of dividends paid. In order to finance the corresponding reimbursement, an exceptional surtax was introduced, which raised the income tax payable by French companies in respect of fiscal year 2017 by 15% or 30%, depending on the revenue threshold reached. The reimbursement received, including interest on arrears and net of the exceptional surtax, represented income in the amount of 228 million euros.

In 2017, the impact of changes in tax rates on deferred income taxes mainly involved two opposing trends. First, the 2018 Budget Act in France continued the gradual reduction of the corporate tax rate initiated by the 2017 Budget Act, lowering the tax rate to 25.83% from 2022; long-term deferred taxes of the Group's French entities, mainly relating to acquired brands, were thus revalued based on the rate applicable from 2022. Moreover, the tax reform signed into law in the United States lowered the overall corporate income tax rate from 40% to 27% beginning in fiscal year 2018; deferred taxes of entities that are taxable in the United States were thus revalued.

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.

28. EARNINGS PER SHARE

	2018	2017	2016
Net profit, Group share *(EUR millions)*	**6,354**	**5,365**	**4,066**
Average number of shares outstanding during the fiscal year	505,986,323	507,172,381	507,210,806
Average number of treasury shares owned during the fiscal year	(3,160,862)	(4,759,687)	(4,299,681)
Average number of shares on which the calculation before dilution is based	**502,825,461**	**502,412,694**	**502,911,125**
Basic earnings per share *(EUR)*	**12.64**	**10.68**	**8.08**
Average number of shares outstanding on which the above calculation is based	502,825,461	502,412,694	502,911,125
Dilutive effect of stock option and bonus share plans	1,092,679	1,597,597	1,729,334
Other dilutive effects	-	-	-
Average number of shares on which the calculation after dilution is based	**503,918,140**	**504,010,291**	**504,640,459**
Diluted earnings per share *(EUR)*	**12.61**	**10.64**	**8.06**

As of December 31, 2018, all of the instruments that may dilute earnings per share have been taken into consideration when determining the dilutive effect, 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, 2018 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.

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)	**2018**	**2017**	**2016**
Service cost	113	110	100
Net interest cost	12	12	13
Actuarial gains and losses	(1)	-	1
Changes in plans	3	(10)	-
Total expense for the fiscal-year for defined-benefit plans	**127**	**112**	**114**

30. OFF-BALANCE SHEET COMMITMENTS

30.1 Purchase commitments

(EUR millions)	**2018**	**2017**	**2016**
Grapes, wines and *eaux-de-vie*	2,040	1,925	1,962
Other purchase commitments for raw materials	215	123	87
Industrial and commercial fixed assets	721	525	613
Investments in joint venture shares and non-current available for sale financial assets	2,151	205	953

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, 2018, share purchase commitments included the impact of LVMH's commitment to acquire, for cash, all the Class A shares of Belmond Ltd at a unit price of 25 US dollars, for a total of 2.3 billion US dollars, after taking into account the shares acquired on the market in December 2018. Belmond owns and operates an exceptional portfolio of very high-end hotels and travel experiences in the world's most desirable, prestigious locations. The company operates in 24 countries and is listed on the New York Stock Exchange. The transaction should be finalized in the first half of 2019, subject to approval by Belmond's shareholders and certain competition authorities.

As of December 31, 2018, 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*	659	1,346	35	2,040
Other purchase commitments for raw materials	123	91	1	215
Industrial and commercial fixed assets	601	121	(1)	721
Investments in joint venture shares and non-current available for sale financial assets	2,049	102	-	2,151

30.2 Leases

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, 2018:

(EUR millions)	**2018**	**2017**	**2016**
Less than one year	2,334	2,172	2,024
One to five years	6,098	5,595	4,965
More than five years	4,141	3,677	3,107
Commitments given for operating leases and concessions	**12,573**	**11,444**	**10,096**
Less than one year	18	15	14
One to five years	48	35	17
More than five years	3	13	6
Commitments received for subleases	**69**	**63**	**37**

In addition, the Group may enter into operating leases or concession contracts that have variable guaranteed amounts.

30.3 Collateral and other guarantees

As of December 31, 2018, these commitments broke down as follows:

(EUR millions)	**2018**	**2017**	**2016**
Securities and deposits	342	379	400
Other guarantees	160	274	132
Guarantees given	**502**	**653**	**532**
Guarantees received	**70**	**40**	**34**

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	125	209	8	342
Other guarantees	56	91	13	160
Guarantees given	**181**	**300**	**21**	**502**
Guarantees received	**20**	**44**	**6**	**70**

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

As part of its day-to-day management, the Group may be party to various legal proceedings concerning trademark rights, the protection of intellectual property rights, the protection of selective Retailing networks, licensing agreements, employee relations, tax audits, and any other matters inherent to its business. The Group believes that the provisions recorded in the balance sheet in respect of these risks, litigation proceedings and disputes that are in progress and any others of which it is aware at the year-end, are sufficient to avoid its consolidated financial position being materially impacted in the event of an unfavorable outcome.

No significant exceptional events or litigation occurred during the fiscal year 2018.

To the best of the Company's knowledge, there are no pending or impending administrative, judicial or arbitration procedures that are likely to have, or have had over the twelve-month period under review, any significant impact on the financial position or profitability of the Group.

32. SUBSEQUENT EVENTS

No significant subsequent events occurred between December 31, 2018 and January 29, 2019, the date at which the financial statements were approved for publication by the Board of Directors.

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